

# VOLUME

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# VOLUME

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# ***Province of Manitoba Financial Review***

## ***Phase I Report***

*Prepared for Hon. G. Selinger  
Minister of Finance  
Government of Manitoba*

*February 8, 2000*

## ***Volume 1 - Report***



# TABLE OF CONTENTS

|                                                                                                |           |
|------------------------------------------------------------------------------------------------|-----------|
| <b>EXECUTIVE SUMMARY .....</b>                                                                 | <b>1</b>  |
| A.    OVERVIEW .....                                                                           | 1         |
| B.    OUR APPROACH TO THE REVIEW PROCESS.....                                                  | 2         |
| C.    OUR FINDINGS .....                                                                       | 4         |
| D.    HIGHLIGHTS OF OUR RECOMMENDATIONS .....                                                  | 12        |
| <b>I.    INTRODUCTION.....</b>                                                                 | <b>16</b> |
| A.    TERMS OF REFERENCE .....                                                                 | 16        |
| B.    THE REVIEW PROCESS .....                                                                 | 17        |
| C.    COMPONENTS OF THE PROVINCIAL PICTURE.....                                                | 23        |
| D.    ORGANIZATION OF THIS REPORT .....                                                        | 24        |
| <b>II.   ASSESSMENT OF THE GOVERNMENT'S FINANCIAL POSITION.....</b>                            | <b>25</b> |
| A.    LEGISLATIVE IMPERATIVE: BALANCED BUDGETS .....                                           | 25        |
| B.    PUBLIC DEBT MANAGEMENT .....                                                             | 27        |
| C.    MANITOBA'S FISCAL MANAGEMENT TOOLS .....                                                 | 29        |
| D.    THE OPERATING FUND .....                                                                 | 31        |
| E.    GOVERNMENT ENTERPRISES.....                                                              | 54        |
| F.    THE UNFUNDED PENSION LIABILITY .....                                                     | 59        |
| G.    CONCLUSIONS ON THE GOVERNMENT'S FINANCIAL POSITION.....                                  | 60        |
| <b>III.  ANALYSIS OF THE FINANCIAL CONDITION OF THE PROVINCE.....</b>                          | <b>62</b> |
| A.    MEASURES OF SUSTAINABILITY – THE FIRST PRIORITY .....                                    | 62        |
| B.    MEASURES OF FLEXIBILITY – THE SECOND PRIORITY .....                                      | 67        |
| C.    MEASURES OF VULNERABILITY – THE THIRD PRIORITY .....                                     | 70        |
| D.    OVERALL CONCLUSION ON THE PROVINCE'S FINANCIAL<br>CONDITION .....                        | 71        |
| <b>IV.   FINANCIAL MANAGEMENT ISSUES AND RECOMMENDATIONS .....</b>                             | <b>73</b> |
| A.    TREASURY FUNCTION AND SPECIAL FUNDS .....                                                | 74        |
| B.    OPERATING FUND .....                                                                     | 76        |
| C.    GOVERNMENT ENTERPRISES.....                                                              | 82        |
| D.    FINANCIAL MANAGEMENT ISSUES AFFECTING MULTIPLE<br>COMPONENTS OF PROVINCIAL FINANCES..... | 84        |
| <b>V.    FINANCIAL REPORTING ISSUES AND RECOMMENDATIONS .....</b>                              | <b>88</b> |
| A.    ACCOUNTABILITY / REPORTING CONTEXT .....                                                 | 88        |
| B.    EXISTING PROVINCE OF MANITOBA FINANCIAL REPORTING<br>TO THE PUBLIC .....                 | 89        |
| C.    THE PROVINCIAL AUDITOR'S VIEWS .....                                                     | 91        |
| D.    OUR PERSPECTIVE ON THE ISSUES .....                                                      | 94        |

|                                                                                     |           |
|-------------------------------------------------------------------------------------|-----------|
| <b>VI. FINAL CONCLUSIONS.....</b>                                                   | <b>97</b> |
| A. DEFINE AND IMPLEMENT A LONG-TERM STRATEGY .....                                  | 97        |
| B. FOCUS ON IMPROVING FINANCIAL MANAGEMENT .....                                    | 100       |
| C. MAKE FINANCIAL REPORTING TRANSPARENT .....                                       | 101       |
| D. INCORPORATE EXPENDITURE MANAGEMENT<br>RECOMMENDATIONS INTO PHASE II REVIEW ..... | 103       |

## EXHIBITS

|                                                                                                     |    |
|-----------------------------------------------------------------------------------------------------|----|
| Exhibit 1 – Projected Results For 1999/2000 .....                                                   | 5  |
| Exhibit 2 – Reconciliation To November 17, 1999 Interim Report .....                                | 6  |
| Exhibit 3 – “Normalized” Revenues And Expenditures .....                                            | 8  |
| Exhibit 4 – Financial Pressure Overview .....                                                       | 9  |
| Exhibit 5 – Understanding Of Government Finances .....                                              | 23 |
| Exhibit 6 – Fiscal Stabilization Fund Transactions Since Inception .....                            | 29 |
| Exhibit 7 – Fiscal Stabilization Fund 1998-2000 .....                                               | 30 |
| Exhibit 8 – Debt Retirement Fund .....                                                              | 30 |
| Exhibit 9 – Operating Fund Revenue Sources .....                                                    | 32 |
| Exhibit 10 – Operating Fund Expenditure Categories .....                                            | 33 |
| Exhibit 11 – Previous Years’ Operating Fund Results .....                                           | 34 |
| Exhibit 12 – Previous Years’ Special Warrants .....                                                 | 35 |
| Exhibit 13 – Previous Years’ Expenditure Increases .....                                            | 36 |
| Exhibit 14 – Projected Results For 1999/2000 .....                                                  | 38 |
| Exhibit 15 – Reconciliation To November 17, 1999 Interim Report .....                               | 40 |
| Exhibit 16 – Chronology Of Events Since Interim Report .....                                        | 41 |
| Exhibit 17 – Valuation Adjustments Since Interim Report .....                                       | 41 |
| Exhibit 18 – Significant Revenue Variances .....                                                    | 42 |
| Exhibit 19 – Significant Revenue Variance Explanations .....                                        | 42 |
| Exhibit 20 – Significant Expenditure Variances .....                                                | 44 |
| Exhibit 21 – Significant Expenditure Variances .....                                                | 44 |
| Exhibit 22 – Significant Expenditure Variance Explanations .....                                    | 45 |
| Exhibit 23 – Financial Pressure Overview .....                                                      | 47 |
| Exhibit 24 – Financial Pressure In Key Departments For 2000/2001 .....                              | 48 |
| Exhibit 25 – Financial Pressure Related To Infrastructure .....                                     | 50 |
| Exhibit 26 – Crown Organization Additional Requirements For 1999/2000 .....                         | 52 |
| Exhibit 27 – Crown Organization Cumulative Results .....                                            | 53 |
| Exhibit 28 – Financial Pressures Affecting Crown Organizations .....                                | 54 |
| Exhibit 29 – Government Enterprise Revenue .....                                                    | 55 |
| Exhibit 30 – Government Enterprise Profitability .....                                              | 55 |
| Exhibit 31 – Government Enterprise Cumulative Positions .....                                       | 56 |
| Exhibit 32 – Government Enterprise Contributions To The Consolidated Fund .....                     | 57 |
| Exhibit 33 – Projected GAAP Deficit For 1999/2000 .....                                             | 64 |
| Exhibit 34 – “Normalized” Revenue And Expenditures Using The Current Accounting<br>Procedures ..... | 65 |

|                                                                           |    |
|---------------------------------------------------------------------------|----|
| Exhibit 35 – Maintenance Expenditure Deferrals.....                       | 86 |
| Exhibit 36 – Calculation Of Projected Volume 3 Results For 1999/2000..... | 90 |
| Exhibit 37 – Other Jurisdictions On Pensions .....                        | 93 |

## APPENDICES

- A. ENTITIES SUBJECT TO FINANCIAL REVIEW
- B. INFORMATION REQUESTED FROM ENTITIES
- C. DOCUMENTS AND REFERENCE MATERIALS EXAMINED
- D. INDIVIDUALS INTERVIEWED
- E. ENTITY SIGN-OFF LETTER
- F. DESCRIPTION OF CATEGORIES OF ENTITIES
- G. EXPLANATION OF SIGNIFICANT VARIANCES FOR USE AS REQUIRED  
TO SUPPORT VARIANCES DISCLOSED IN THE REPORT
- H. FUTURE ISSUES AFFECTING OPERATIONS OF DEPARTMENTS,  
GOVERNMENT ORGANIZATIONS AND SPECIFIC FUNDS
- I. PROFIT PROJECTIONS AND FUTURE ISSUES AFFECTING OPERATIONS  
OF GOVERNMENT ENTERPRISES
- J. CICA INDICATORS OF GOVERNMENT FINANCIAL CONDITION

## EXECUTIVE SUMMARY

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On October 27, 1999, Deloitte & Touche LLP was asked to undertake a financial review of the Government of Manitoba. The first phase of this review was directed to framing the financial picture facing the Province and identifying the implications of this situation. A second phase of the review is to examine how budgets are developed, how to improve the accuracy of future budgets, and how to improve control of expenditures. The objective is to end each fiscal year with actual expenditures more in line with the budget as approved, and to report this result to the public in "full, true and plain" language.

This document presents our conclusions respecting our Phase I work. In reviewing this report, readers should be aware that it is the result of a financial review. Our findings should not be characterized as an audit of the Government of Manitoba or any of its entities. As well, our conclusions do not address questions of program performance in meeting their objectives.

### A. OVERVIEW

The first year of any new government is critical. This is the time to establish principles for the longer term. However, in setting this context, the Government needs to know its current financial position. And to truly understand the current financial position, it is necessary to look at the 1999/2000 year in a larger perspective. Accordingly, this review took a longer view, looking back to 1997/1998 and 1998/1999 and forward to 2000/2001 and 2001/2002. We also sought to identify the underlying or structural condition of the provincial finances.

With this five-year perspective on the underlying financial condition, the current financial circumstances can be better understood. This understanding then points us to a set of principles on which the Government can establish its longer term fiscal strategy.

In our review of the current financial circumstances and the underlying financial condition, we have concluded that the Government faces two fundamental challenges:

#### 1. OPERATING FUND STRUCTURAL CHALLENGES

*The challenges:*

- *Recurring and sustainable revenues are insufficient to cover the planned and forecast levels of government expenditures, particularly for health care programs.*
- *In resolving this problem, flexibility is significantly constrained by a limited ability to leverage increased revenues from existing sources, so other solutions are required.*

The Operating Fund results over the past two years and for the current year involve one-time transfers from the federal government, transfers from the Fiscal Stabilization Fund, and other non-recurring items including emergency revenues. When the impact of these special items is

eliminated from the results of the prior and current years, a structural deficit becomes apparent. Initial indications of expenditure level requests for 2000/2001 suggest that this challenge will become more pronounced in the future. Finding a solution to this structural imbalance starts with recognizing its existence.

## 2. LONG TERM FUNDING OBLIGATIONS AND REQUIREMENTS

### *The challenges:*

*In order to sustain established service levels and programs funded through the Operating Fund, substantial additional funding is required to provide for long term and increasingly costly obligations of the Government. In addition, there are other obligations:*

- *The \$2.8 billion unfunded pension liability for civil servants, teachers and legislators, which is growing rapidly.*
- *Deferred infrastructure capital and maintenance costs for highways, post secondary institutions, public schools, health facilities and equipment, and public housing.*
- *Commitments for debt retirement.*

Continued deferral of these expenditures will only cause increased demands on the Operating Fund – for increases in pension payments to retirees, departmental requests for repair and maintenance funding, and public debt interest charges.

Given these two central findings respecting the Province's basic financial circumstances, we have focused our attention on "getting beyond 1999/2000". The objective must be a true improvement in the difficult financial reality, and this can only be done by the long term and consistent application of sound financial principles.

## B. OUR APPROACH TO THE REVIEW PROCESS

Throughout our review work, we engaged in ongoing discussions with provincial officials on a number of issues as they arose. Our approach also included three key elements:

### *The Steering Committee*

The Minister of Finance appointed a Steering Committee chaired by Ron Hikel and including senior provincial officials, the Provincial Auditor, and a representative of the business community, to oversee the review process. In addition to the Committee Chair, the membership includes: Pat Gannon, Deputy Minister of Finance; Don Potter, Secretary to Treasury Board; Jon Singleton, Provincial Auditor; Jim Eldridge, Clerk of the Executive Council; and Bev Suek, Director of TLS Enterprises. Deloitte & Touche LLP met with this group 11 times to report progress and discuss issues raised in the course of the review.



## ***Review of Entity Information***

To establish the truest possible picture of the Government's financial position, we reviewed and analyzed information provided by provincial officials. We looked at multiple sources (e.g., Treasury Board and individual Departments) where possible in order to ensure consistency and completeness.

The review covered a total of 41 organizations or "entities", including all departments as well as certain agencies and Crown corporations. The large and complex task of obtaining and reviewing information from each entity required a systematic and iterative approach to dealing with provincial officials and documentation. At the beginning of the financial review, the Chairman of the Financial Review Steering Committee wrote to the senior officials of each of the 41 entities, requesting that specific information be forwarded directly to Deloitte & Touche LLP.

Our subsequent interaction with entity officials focused on points of variance from budgeted expenditures and revenues. In the course of our discussions, we sought evidence to verify or corroborate the variance information that we had originally received. We summarized our findings in a report on each entity.

Senior officials then reviewed the summaries for their entities and were asked for a formal sign off, documenting their agreement with the completeness and accuracy of the information contained in the reports on their organizations. Through this process, a number of additional matters came to light, and we had numerous discussions with representatives of major departments through to the early part of February, 2000. The sign-off process with the 41 entities was completed on February 8, 2000.

Through the process of working with entity officials, we assessed the need for and the appropriateness of recording suggested provisions for lurking expenditures. In many cases, we concluded that the suggested provisions should not be recorded because of insufficient evidence of the Government's commitment to incur these costs. A number of these costs may, however, become unavoidable if action is not taken to resolve or mitigate these future issues.

## ***Consideration of Asset Valuation Issues***

We provided insight and advice where appropriate related to a significant number of asset valuation issues. Assets include investments made by the government, such as loans receivable, as well as property and equipment. Some of these asset valuation issues are addressed in a separate review which we report on in the document **Information Technology Major Initiatives Review**. Those relatively few valuation issues which resulted in adjustments to the projected deficit are described in Chapter II.

## **C. OUR FINDINGS**

Highlights of our findings start with an overview of the current year's financial circumstances.

### **1. THE 1999/2000 FINANCIAL SITUATION – A PROJECTED DEFICIT OF \$100 MILLION TO \$135 MILLION**

Our review found that the Province is facing the prospect of the 1999/2000 Operating Fund results bringing the deficit to the order of \$100 million to \$135 million. The projected deficit is the result of developments in both revenue and expenditure components of the Province's finances.

As we note throughout this report, the process for estimating revenues and expenditures to March 31, 2000 is dynamic and ongoing. The deficit we have projected is based on the most up-to-date revenue and expenditure information available to us, up to and including February 8, 2000. While we have made every effort to provide for all known items, it is reasonable to expect the new circumstances arising after February 8 will affect the amount of the deficit ultimately reported by the Province for the 1999/2000 year.

Exhibit 1 provides an overview of the projection, noting key variances and transactions that produce the projected result.

# Exhibit 1 – Projected Results for 1999/2000<sup>1</sup>

|                                                                                               | 1999/00<br>Published<br>Estimates | Variances             |                                         | Current<br>1999/2000<br>Forecast |
|-----------------------------------------------------------------------------------------------|-----------------------------------|-----------------------|-----------------------------------------|----------------------------------|
|                                                                                               |                                   | Approved <sup>2</sup> | Additional/<br>Anticipated <sup>3</sup> |                                  |
| <b>Revenue</b>                                                                                | \$5,897.5                         |                       | \$259.7                                 | \$6,157.2                        |
| <b>Expenditures</b>                                                                           |                                   |                       |                                         |                                  |
| Health                                                                                        | 2,119.3                           |                       | 158.6                                   | 2,277.9                          |
| Education and Training                                                                        | 1,180.0                           |                       | 18.3                                    | 1,198.3                          |
| Family Services                                                                               | 701.7                             |                       | 8.4                                     | 710.1                            |
| Public Debt                                                                                   | 480.8                             |                       |                                         | 480.8                            |
| Justice                                                                                       | 208.0                             |                       | 4.8                                     | 212.8                            |
| Agriculture                                                                                   | 113.0                             |                       | 7.6                                     | 120.6                            |
| Emergency Expenditures (Re:<br>Flood Assistance and Fire<br>Suppression)                      | 23.5                              | 96.0                  | 18.5                                    | 138.0                            |
| Valuation adjustments                                                                         |                                   |                       | 48.3                                    | 48.3                             |
| Other                                                                                         | 1,159.5                           | 3.4                   | 17.0                                    | 1,179.9                          |
| <b>Subtotal Expenditures</b>                                                                  | <b>5,985.8</b>                    | <b>99.4</b>           | <b>281.5</b>                            | <b>6,366.7</b>                   |
| Deficit Before Transfer from the<br>Fiscal Stabilization Fund and Debt<br>Retirement Payments | (88.3)                            |                       |                                         | (209.5)                          |
| Debt Retirement Payment                                                                       | (75.0)                            |                       |                                         | (75.0)                           |
| Deficit Before Transfer from the<br>Fiscal Stabilization Fund                                 | (163.3)                           |                       |                                         | (284.5)                          |
| Planned Transfer from the Fiscal<br>Stabilization Fund <sup>4</sup>                           | 184.7                             |                       |                                         | 184.7                            |
| <b>Surplus (Deficit) for the Year</b>                                                         | <b>\$21.4</b>                     | <b>(\$99.4)</b>       | <b>(\$21.8)</b>                         | <b>(\$99.8)</b>                  |
| <b>Additional Potential Variances</b>                                                         |                                   |                       |                                         | <b>(35.0)</b>                    |
|                                                                                               |                                   |                       |                                         | <b>\$(134.8)</b>                 |

<sup>1</sup>This is based on a February 8, 2000 estimate of revenue from tax collection agreements and transfer payments. A further estimate is expected before March 31, 2000.

<sup>2</sup>These variances have been approved by Special Warrant.

<sup>3</sup>While the additional, anticipated expenditures may have departmental and/or Treasury Board approval, funding authority for the expenditures has not yet been put in place.

<sup>4</sup>As per original published Estimates.

Projected revenues include a one-time \$131 million Canada Health & Social Transfer Supplement from the federal government. The 1999 federal budget set out an allocation of this revenue over a three-year period. Consequently, Manitoba Finance may consider the transfer of about \$56 million from the Operating Fund to the Fiscal Stabilization Fund. This transfer would reflect that part of the health care supplement that relates to subsequent fiscal years according to the federal calculation. Using the financial reporting framework set out in the preceding exhibit, which is the basis on which the 1999/2000 budget was prepared, the impact of the contemplated transfer would be to increase the deficit by \$56 million.



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## 2. DEVELOPMENTS SINCE OUR INTERIM REPORT

Our interim report of November 17, 1999 highlighted on page 9 that increased revenues were probable as a result of revised federal estimate information. The next federal update was expected by the Province before the end of 1999.

After the completion of our interim report, Manitoba Finance officials continued to receive information from the federal government that enabled new revenue estimates to be prepared. Manitoba Finance officials had a prevailing feeling that estimated revenues would be significantly higher than set out in our November 17, 1999 report. However, they were not sufficiently confident in the data being used in the process to formulate a specific revised revenue estimate.

Manitoba Finance officials formally notified us on January 6, 2000 of their view that revenues for the 1999/2000 year would be \$191 to \$321 million higher than the original budget estimate. Since then the range was narrowed to \$206 to \$306 million. On February 4, 2000 we were advised that the current estimate of revenue is \$260 million greater than the budget. This is \$218 million greater than the revenue increase projected in November.

Our interim report projected expenditures in the range of \$6.31 to \$6.47 billion. Our findings since that report have led us to project aggregate final expenditures of approximately \$6.37 billion, near the middle of the range forecasted.

It is therefore the changes in revenue estimates that have had the greatest impact on the projected deficit. Exhibit 2 notes the differences between the interim report and this final report.

### Exhibit 2 – Reconciliation to November 17, 1999 Interim Report

|                                              | Projected deficit<br>noted in<br>Nov. 17, 1999<br>Interim Report | Revisions to<br>projections<br>based on<br>completed<br>review | Revised<br>projected<br>deficit |
|----------------------------------------------|------------------------------------------------------------------|----------------------------------------------------------------|---------------------------------|
| (in millions)                                |                                                                  |                                                                |                                 |
| Revenues                                     | \$5,939.2                                                        | 218.0                                                          | 6,157.2                         |
| Expenditures                                 | 6,311.0                                                          | 55.7                                                           | 6,366.7                         |
|                                              | (371.8)                                                          | 162.3                                                          | (209.5)                         |
| Debt Retirement                              | (75.0)                                                           |                                                                | (75.0)                          |
|                                              | (446.8)                                                          | 162.3                                                          | (284.5)                         |
| Transfer from Fiscal Stabilization Fund      | 184.7                                                            |                                                                | 184.7                           |
| <b>Projected "Lower end" Deficit Range</b>   | <b>(262.1)</b>                                                   | <b>162.3</b>                                                   | <b>(99.8)</b>                   |
| Additional Potential Variances               | (155.0)                                                          | 120.0                                                          | (35.0)                          |
| <b>Projected "High End" of Deficit Range</b> | <b>\$(417.1)</b>                                                 | <b>\$282.3</b>                                                 | <b>(\$134.8)</b>                |

## 3. OVERALL HEALTH OF THE PROVINCE'S FINANCES

In considering the structural health of the Province's finances, we used the approach recommended by the Canadian Institute of Chartered Accountants (CICA) in its publication **Indicators of Government Financial Condition** (Toronto, Ontario 1997). This publication gives us a method of assessing the Province's general financial health.

## 2. DEVELOPMENTS SINCE OUR INTERIM REPORT

Our interim report of November 17, 1999 highlighted on page 9 that increased revenues were probable as a result of revised federal estimate information. The next federal update was expected by the Province before the end of 1999.

After the completion of our interim report, Manitoba Finance officials continued to receive information from the federal government that enabled new revenue estimates to be prepared. Manitoba Finance officials had a prevailing feeling that estimated revenues would be significantly higher than set out in our November 17, 1999 report. However, they were not sufficiently confident in the data being used in the process to formulate a specific revised revenue estimate.

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| <i>(in millions)</i>                         | <i>Projected deficit<br/>noted in<br/>Nov. 17, 1999<br/>Interim Report</i> | <i>Revisions to<br/>projections<br/>based on<br/>completed<br/>review</i> | <i>Revised<br/>projected<br/>deficit</i> |
|----------------------------------------------|----------------------------------------------------------------------------|---------------------------------------------------------------------------|------------------------------------------|
| Revenues                                     | \$5,939.2                                                                  | 218.0                                                                     | 6,157.2                                  |
| Expenditures                                 | 6,311.0                                                                    | 55.7                                                                      | 6,366.7                                  |
| Debt Retirement                              | (371.8)                                                                    | 162.3                                                                     | (209.5)                                  |
|                                              | (75.0)                                                                     |                                                                           | (75.0)                                   |
| Transfer from Fiscal Stabilization Fund      | (446.8)                                                                    | 162.3                                                                     | (284.5)                                  |
|                                              | 184.7                                                                      |                                                                           | 184.7                                    |
| <b>Projected "Lower end" Deficit Range</b>   | <b>(262.1)</b>                                                             | <b>162.3</b>                                                              | <b>(99.8)</b>                            |
| Additional Potential Variances               | (155.0)                                                                    | 120.0                                                                     | (35.0)                                   |
| <b>Projected "High End" of Deficit Range</b> | <b>\$(417.1)</b>                                                           | <b>\$282.3</b>                                                            | <b>(\$134.8)</b>                         |

## 3. OVERALL HEALTH OF THE PROVINCE'S FINANCES

In considering the structural health of the Province's finances, we used the approach recommended by the Canadian Institute of Chartered Accountants (CICA) in its publication **Indicators of Government Financial Condition** (Toronto, Ontario 1997). This publication gives us a method of assessing the Province's general financial health.

It is apparent that progress has been made on several fronts since the mid-1990's in improving the provincial circumstances. Chapter III of this report applies the CICA framework to provide a detailed analysis of the Province's financial condition. To give an overview:

- Over the last ten years, the Province's **ratio of net debt to GDP** increased up to 1994, which meant that the burden of debt on taxpayers was increasing. However, since 1994, the ratio has been declining. According to the CICA, net debt is calculated as the Province's accumulated consolidated deficit. This amount represents that portion of the Province's gross liabilities that are not being used to finance specific assets like the Province's investment in Manitoba Hydro. As the Province ran surpluses and the provincial economy strengthened and grew, the ratio of net debt to GDP declined, indicating a gradual improvement in the Province's basic financial position.
- The **net debt per capita ratio** measures the size of the Province's net debt in relation to the size of the Province's population. An increasing ratio means that relative to the size of the population, the debt burden is increasing. A declining ratio means that the debt burden of the Province is decreasing on a per person basis. Over the past ten years, the ratio increased until 1996, at which point the situation started to improve. This improvement continued through the 1997-1999 period.
- Over the last ten years, the **ratio of debt costs to Government revenue** has varied between 8% and 11%. It has decreased each year since 1994. The less the Government pays in interest costs on debt, the more it has available to support programs.

In other areas the situation is less positive. Our analysis concluded that the Government still faces significant challenges in the areas of revenue sustainability and flexibility.

### ***Sustainability Is In Question***

The projected Operating Fund deficit for the current year, as summarized above and as described in detail in Chapter II, is now projected to be \$100 to \$135 million. However, this projection is affected to a large degree by non-recurring revenues and transfers from the Fiscal Stabilization Fund.

To more clearly understand the underlying nature of the Government's financial condition, we have completed an analysis of the past three fiscal years and the current year's projected results for the Province's Operating Fund. We calculated a "normalized" picture of each year's reported financial result by eliminating the impact of non-recurring revenues, transfers from the Fiscal Stabilization Fund and non-recurring expenditures. This is the relationship between ongoing, recurring revenues and expenditures, without the extraordinary impact of one-time revenues or expenditures.

The analysis, which is set out in the following table, indicates a deteriorating underlying surplus/deficit trend, beginning in recent years. Further, it demonstrates that expenditures at the projected 1999/2000 levels are significantly greater than anticipated continuing revenues. This





gap is a structural deficit and poses a significant financial management challenge for the Government.

Exhibit 3 presents the "normalized" revenue and expenditure picture for a four year period starting in 1996/1997.

### Exhibit 3 – "Normalized" Revenues and Expenditures

| (in millions)                                               | Year Ended March 31 |                |                |                   |
|-------------------------------------------------------------|---------------------|----------------|----------------|-------------------|
|                                                             | 1997<br>Actual      | 1998<br>Actual | 1999<br>Actual | 2000<br>Projected |
| <b>Total Reported Revenues</b>                              | \$5,499             | \$5,842        | \$6,067        | \$6,342           |
| Remove Internal Transfers and Non Recurring Items:          | (6)                 | (268)          | (324)          | (456)             |
| <b>"Normalized" Revenues</b>                                | <b>\$5,493</b>      | <b>\$5,574</b> | <b>\$5,743</b> | <b>\$5,886</b>    |
| <b>Total Required Disbursements</b>                         |                     |                |                |                   |
| Expenditures                                                | \$5,408             | \$5,691        | \$5,887        | \$6,367           |
| Add: Debt Retirement Fund Payments                          |                     | 75             | 150            | 75                |
|                                                             | 5,408               | 5,766          | 6,037          | 6,442             |
| Remove Non Recurring Expenditures:                          |                     | (217)          | (173)          | (186)             |
| <b>"Normalized" Expenditures</b>                            | <b>\$5,408</b>      | <b>\$5,549</b> | <b>\$5,864</b> | <b>\$6,256</b>    |
| <b>"Normalized" Revenues Less "Normalized" Expenditures</b> | <b>\$85</b>         | <b>\$25</b>    | <b>(\$121)</b> | <b>(\$370)</b>    |
| Surplus/(Deficit) as Reported/Projected                     | \$91                | \$76           | \$30           | (\$100)           |
| <b>Difference between "Normalized" and non-"Normalized"</b> | <b>\$6</b>          | <b>\$51</b>    | <b>\$151</b>   | <b>\$270</b>      |

As indicated in this exhibit, the impact of using a "normalized" display is a marked change in the level of surplus or deficit from what has been reported or projected. The difference is particularly significant for 1998/1999 and the current year. For 1999/2000, using a "normalized" approach, the deficit would be \$370 million. This is substantially higher than the \$100 million projected which includes using one-time transfers and non-recurring revenue.

### Flexibility Is Limited

Given the financial challenges facing the Province, flexibility in revenue sources as defined in the CICA report is increasingly important. However, the Province's ability to leverage increased revenues from existing sources is minimal. The Province faces public concerns about current levels of taxation. It is also constrained by the existing balanced budget legislation requirement that referendum approval be obtained for new tax rate increases and by the Government's pledge to implement budgeted tax cuts. Also, the Province must consider that other provincial governments are decreasing taxes, putting pressure on Manitoba to chart a similar course to keep this economy competitive. Finally, the linkage of Manitoba's personal income tax to the federal system may expose Manitoba to potential revenue loss when the federal government reduces taxes, as it has done recently.



gap is a structural deficit and poses a significant financial management challenge for the Government.

Exhibit 3 presents the "normalized" revenue and expenditure picture for a four year period starting in 1996/1997.

### Exhibit 3 – "Normalized" Revenues and Expenditures

| (in millions)                                               | Year Ended March 31 |                |                |                   |
|-------------------------------------------------------------|---------------------|----------------|----------------|-------------------|
|                                                             | 1997<br>Actual      | 1998<br>Actual | 1999<br>Actual | 2000<br>Projected |
| <b>Total Reported Revenues</b>                              | \$5,499             | \$5,842        | \$6,067        | \$6,342           |
| Remove Internal Transfers and Non Recurring Items:          | (6)                 | (268)          | (324)          | (456)             |
| <b>"Normalized" Revenues</b>                                | <b>\$5,493</b>      | <b>\$5,574</b> | <b>\$5,743</b> | <b>\$5,886</b>    |
| <b>Total Required Disbursements</b>                         |                     |                |                |                   |
| Expenditures                                                | \$5,408             | \$5,691        | \$5,887        | \$6,367           |
| Add: Debt Retirement Fund Payments                          |                     | 75             | 150            | 75                |
|                                                             | 5,408               | 5,766          | 6,037          | 6,442             |
| Remove Non Recurring Expenditures:                          |                     | (217)          | (173)          | (186)             |
| <b>"Normalized" Expenditures</b>                            | <b>\$5,408</b>      | <b>\$5,549</b> | <b>\$5,864</b> | <b>\$6,256</b>    |
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| Surplus/(Deficit) as Reported/Projected                     | \$91                | \$76           | \$30           | (\$100)           |
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#### 4. FINANCIAL PRESSURES FOR FUTURE YEARS

As part of the review, we gathered information from each department's senior officials on what they judged to be required expenditure levels for two future years, together with the most current estimates of future revenue levels. As part of the sign-off process, officials verified that this information fairly represented their current expectations of requirements to continue existing programs.

We emphasize that this information was provided to us before it was included in the 2000/2001 estimates preparation process. Consequently, the information is preliminary. It has not been subject to debate, testing or scrutiny from outside the respective departments, as will be involved in the final Treasury Board examination and approval in developing the Government's 2000/2001 budget. However, while we recognize that departments' expenditure proposals are likely to be higher than what will be approved in a budget, our review was not directed to the development of budget requests. Officials were asked to focus specifically on requirements to maintain existing programs, not to enhance them or to add new programs.

In addition to the departmental estimates, the projected expenditures noted in Exhibit 4 include enabling and other appropriation estimates at amounts equal to 1999/2000 levels, except for the removal of costs related to the PanAm Games, the Millennium Fund, and cost sharing agreements that are expiring in 1999/2000.

#### Exhibit 4 – Financial Pressure Overview

| <i>Operating Fund</i>                    |  | <i>Projected Impact<br/>(in millions)</i> |
|------------------------------------------|--|-------------------------------------------|
|                                          |  | <i>2000/2001</i>                          |
| <i>Revenues</i>                          |  |                                           |
| <i>Taxation</i>                          |  | \$3,865                                   |
| <i>Other</i>                             |  | 606                                       |
| <i>Federal Government</i>                |  | 1,742                                     |
|                                          |  | 6,213                                     |
| <i>Expenditures</i>                      |  | 6,585                                     |
| <i>Required Debt Retirement Payments</i> |  | 96                                        |
|                                          |  | 6,681                                     |
| <i>Projected Potential Impact</i>        |  | <i>(\$468)</i>                            |

As illustrated, the financial pressures identified total approximately \$470 million. This is an indication of the ongoing structural pressures tending toward a deficit.

#### 5. IMPLICATIONS OF THE CURRENT YEAR SITUATION, FUTURE FINANCIAL PRESSURES, AND THE PROVINCE'S FINANCIAL HEALTH

The Government faces a probable deficit for the current year as a result of additional expenditures beyond budgeted levels. In some instances – notably Manitoba Health – the expenditures in excess of the approved budget are consistent with the spending pattern of recent years. This suggests that the roots of the current year's deficit arose from expenditure planning

and management practices over a longer period of time. Treasury Board officials have confirmed this pattern.

The Government is facing the implications of the cumulative public debt (including the growing unfunded pension liability), the current year's deficit, and mounting revenue and expenditure pressures for the coming years. To address this multi-dimensional challenge, the Government will need to make choices from a limited range of alternatives, including expenditure reductions and greater public sector productivity.

Although comprehensive forecasts of the Province's operating fund budget for the next two fiscal years have not yet been made, information currently available suggests that the nature of the pressures will probably become more pronounced in subsequent fiscal years. The troubling implications of both the 1999/2000 financial picture and the mounting pressures for future years must be major considerations for the Government as it prepares its first budget and defines a long term approach to financial management and reporting.

## **6. FINANCIAL REPORTING AND FINANCIAL MANAGEMENT**

Both financial reporting and financial management speak to the fundamental issue of accountability. Financial decisions are made, implemented, and the end results are reported back to the Legislature and the public. All three of these activities demand that individual elected representatives and public servants accept responsibility make the appropriate judgements so they fulfill their defined roles. We noted in our review work that in each area – making decisions, implementing them, and reporting on results – the Government is in a position to make further and substantive improvements.

### ***Financial Reporting – a Need for Transparency and Clarity***

Due to historical and current reporting practices, the analysis of the Province's financial condition and financial results is not a straightforward process. The Provincial Auditor has provided comments and advice related to reporting issues over a number of years. We strongly concur that issues of accounting practice require early attention from the Government.

The Government's financial reporting should be based on the principle of transparency. Transparency of financial reporting means reports are understandable and easy for the public to comprehend. More importantly, however, transparency means that the complete financial picture is presented and it is done so in accordance with recognized public sector accounting standards. As a result, the Government's financial situation should be clear and unambiguous to the observer.

### ***Financial Management – a Need for Confidence***

We have concluded that sound financial management must be a focal point for the Government and is integral to its ability to achieve its balanced budget objectives. The historical gaps, year after year, between the approved revenue and expenditure budgets and the actual amounts, and the recurring difficulties in projecting and managing financial pressures, point to a need to

strengthen financial management across the spectrum – from planning to decision-making to implementation and monitoring performance.

While a focus on the financial reporting issues is appropriate and important for the new Government, we caution that resolution of presentation issues will not by itself resolve financial management problems. Confidence in Government financial management needs to be strengthened. As a first step, the Government needs to define its financial management direction.

In developing its financial management plan, a number of specific issues require early attention, including the establishment of principles for considering new revenue sources from Government Enterprises, for dealing with the pension issue, and for obtaining an appropriate return on investments in information technology.

As a matter of urgent priority, the Government also should address the challenge of health care expenditure management. This must include ensuring that better information is available to assist in this process. Finally, the Government needs to improve expenditure controls in the context of a well-defined and understood financial management framework.

A complicating factor in the relationship between Government as funder and the typical Crown organization as a program delivery organization is the distance between the two. With the number of layers of management reporting, it is difficult to achieve effective information flow, communications, and understanding. We see this particularly evident in health care, where the layers involve Government, Manitoba Health, the Regional Health Authorities, and individual health care providers (e.g., hospitals, long term care facilities, community health clinics, etc.). And, where health care providers contract for services, an additional layer is added.

The situation is also complex in education, with the Government, Manitoba Education and Training, the Council on Post Secondary Education, and education providers (e.g., universities and community colleges) all playing a part.

The level of confidence in the financial management capacity of “umbrella” organizations such as the Regional Health Authorities and the Council on Post Secondary Education is therefore extremely important, both for the Government as funder and for the organizations responsible for direct delivery of services. The understanding and commitment of all parties to common financial management principles and clearly defined roles and responsibilities are key to dealing effectively with this challenge.

Timeliness of financial information is central to the confidence factor. Good information provides the Government with an ability to act on a timely basis to properly address issues as they arise. While a degree of uncertainty is inevitable for both revenue and expenditure results compared to plans, we note that the timing can be particularly problematic. We cite two examples:

- **Revenues:** Corporate and individual income tax and federal transfers account for over half of the Province’s revenue. Manitoba Finance’s estimates of these revenues are continually adjusted as the federal government updates statistical and economic data used in the revenue



calculation formulae. Prior to release of our November 17, 1999 interim report, we asked Manitoba Finance officials about the level of certainty with respect to the revenue increase projected for the year. Based on information Manitoba Finance had received and reviewed to that date, we said in our November report that increased revenues were expected to be \$42 million and that increased revenues were probable.

Additional data was received by Manitoba Finance throughout December. In early January, we were informed that the total variance was thought to be \$262 million, attributed primarily to new indications from the federal government respecting increases in transfer payments. In early February, this figure was revised to \$260 million.

- **Expenditures:** Over the course of our review work, expenditure estimates for Manitoba Health varied widely, including changes in a one-week period of more than \$30 million.

These examples raise issues of confidence and uncertainty that can have a profound impact on the Government's ability to plan and manage its finances. With both expenditures and revenues subject to such wide swings, good financial management is more difficult.

## **D. HIGHLIGHTS OF OUR RECOMMENDATIONS**

We offer a number of recommendations for the Government's consideration. They are detailed in Chapter VI of this report and highlighted here.

### **1. DEFINE A LONG-TERM STRATEGY**

A key element in planning is the development first of a fiscal framework and then a budget for the Province. We have concluded from our review that many of the financial challenges facing the Government cannot be resolved in one year, and that the traditional year-to-year focus on individual budgets will not likely contribute to the achievement of fundamental solutions in these areas. A longer term planning framework is therefore advisable, particularly in setting a course to address the structural deficit.

In our Phase II report for this financial review, we will be providing detailed recommendations on how the Government can improve (a) the accuracy of formulating annual estimates for submission to the Legislature and (b) the post-approval control of expenditures so that they will conform more closely to this approved amount.

#### ***Recommendations on Defining a Long-Term Strategy***

We recommend that the Government establish a multi-year strategy for eliminating the structural deficit of the Province, for steadily reducing provincial debt including the unfunded pension liability, and for investment in critical infrastructure improvements, and that it report on progress annually to the Legislature and the public. In particular, this framework should forecast the level of expenditures the Government anticipates being able to spend on the more important areas – the Government should then act both to preserve the required level of revenues for this use and keep actual costs within the defined limits.

To assist the Government in its multi-year plan, the Fiscal Stabilization Fund can be a useful financial management tool and a cash flow mechanism. However, the Government should alter its financial reporting processes so that Fiscal Stabilization Fund transfers are no longer accounted for as revenues. This will eliminate a longstanding objection of the Provincial Auditor.

We recommend that as the Government looks at increasing revenue from certain Government Enterprises for transfer to the Operating Fund, assurances be provided that any such additional transfers will not compromise the ongoing financial strength and integrity of the Government Enterprises as they discharge their individual service delivery mandates.

## 2. FOCUS ON IMPROVING FINANCIAL MANAGEMENT

The financial management of the Province hinges on effective decision-making and follow-through, including strong financial controls. Given the recurring level of variance from approved budgets in the current fiscal year and in previous years, we have concluded that improvements must be made, especially in Manitoba Health. What needs to be determined is: are the variances the result of deficiencies in planning and decision-making, definition and distribution of roles and responsibilities, day-to-day program management, financial controls, or a combination of these factors?

We believe that the Government needs to decide on answers to the following questions:

- **Planning and decision-making:** are the decisions consistent with the established expectations and program mandates?
- **Definition and distribution of roles and responsibilities:** are the right decisions delegated to the right people?
- **Performance standards:** are standards in place that are consistent with the Governments' policy objectives?
- **Day-to-day program management:** is program performance monitored and managed effectively against these standards?
- **Financial controls:** how do potential variations from budget come about, what measures are taken and when are the issues addressed?

The new Government has an opportunity to address the defined financial management issues as a matter of priority, and has already moved in a number of areas (e.g., Health) to determine what actions should be taken. The Government should act quickly.



### ***Recommendations for Improving Financial Management***

We recommend that the Government focus immediate attention on more effective management of the health care budget including capital spending. We further recommend that the Government confirm a clear multi-year governance framework for the health care system, including the appropriate and clear distribution of management and reporting roles and responsibilities between Manitoba Health and health care providers in the Regional Health Authorities. This will require better and more timely financial information on actual expenditures and costs of services.

We recommend that the Government assess and enhance the governance framework for all Crown organizations with the objective of confirming for the organizations – and for the departments that fund them – an understanding and commitment to financial management principles and clearly defined roles and responsibilities.

### **3. MAKE FINANCIAL REPORTING MORE TRANSPARENT**

The Province's reporting has improved from year to year, as recognized by the Provincial Auditor in recent reports. However, we note three particular outstanding issues related to the Province's reporting on its financial situation:

- ***The current financial reporting is not timely.*** The time lag between completion of a fiscal year at March 31 and reporting on the results (Public Accounts) is 6 to 8 months and should be much shorter.
- ***The current reporting is overly complex.*** The presentation of reporting (the published Public Accounts) should be on the same basis as the published Estimates on which the annual budget is based so that comparing performance to plan is both transparent and easy to understand. As recommended by the Provincial Auditor, the Government should prepare a summary budget based on the budgets for all entities, using the same accounting principles as for the summary financial statements. Also, summary budget amounts should be disclosed in the summary financial statements for comparison with actual results. We recognize that this is not easily done, but the Government should begin to take steps in this direction.
- ***The format for performance reporting is unwieldy and unclear.*** The Government should consider a new form of reporting that is more descriptive and explanatory.

The new Government has an opportunity to address the outstanding reporting issues as a matter of priority, and to establish a new reporting foundation in keeping with transparent and clear accountability to the Legislative Assembly and the public. The Government should act quickly.

### ***Recommendations on Making Financial Reporting Transparent***

We recommend that the Government move now to fully adopting Generally Accepted Accounting Principles (GAAP) for public sector bodies in its presentation of the financial position and results of the Province. This will give Manitobans a more accurate and consistent accounting of the Province's financial situation.

We recommend that the Government consider a new form of reporting that is more descriptive and explanatory, such as an annual report that includes:

- the consolidated financial position and results of the consolidated reporting entity (i.e. the entire government);
- discussion and analysis of the financial statements, with commentary from the Minister of Finance on the financial management strategies employed during the year and their outcomes; and,
- information on the Legislature's accountability for the taxation, departmental and federal transfer revenues and expenditure appropriations that are under its authority.

We recommend that the Government align the basis of annual reporting with the basis of budget planning so that the performance compared to budget is both transparent and easier to understand.

We recommend that the Government determine how the fiscal principles inherent in the balanced budget legislation compare with its long-term fiscal policy objectives. We recommend that the Government then amend the balanced budget legislation so that it is consistent with a clearly defined financial management framework and establish a basis for determining compliance with legislation.

We recommend that the Government present the consolidated financial position (i.e., Volume 3) as the primary picture of the Province's financial position. Further, we recommend that the Government change the presentation of the existing Volume 3 so that the Government's financial statement reflecting the entire government reporting entity also shows annual performance relative to the Government's stewardship of taxation, departmental and federal revenues, debt management and expenditure control.

*With these actions, the Government will be better positioned to establish and follow a solid financial management and reporting framework. This will strengthen its ability and capacity to effectively manage the Province's finances and to keep the Legislature and the public more fully informed.*

*We have found the review process distinctly challenging, and have attempted to provide advice that we believe will be of benefit to the Government as it chooses its future course in managing the finances of the Province. We are grateful for the cooperation and assistance of provincial government officials in being accessible for meetings through the course of our review and responding to our requests for information and explanation.*

## I. INTRODUCTION

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This document is the final Phase I report of Deloitte & Touche LLP to the Government of Manitoba on the Financial Review started in late October 1999 and ending in February, 2000.

### A. TERMS OF REFERENCE

Following the issuing of a Request For Proposals on October 18, 1999 and the completion of a competitive process, the Government has engaged Deloitte & Touche LLP to undertake a two-phase review to establish the financial picture facing the Province.

The new Government of Manitoba wants to have a comprehensive picture of its actual starting position from a financial perspective. The Government also wants to have a clear understanding of the implications of its financial circumstances for this year and for subsequent years. With this information, the Government will be better able to set its budgetary and financial management course.

The terms of reference for the review included a five year perspective, starting in 1997/1998 and extending to 2001/2002. This longer-term perspective is essential to understanding the current situation and how it arose, as well as providing a foundation for defining expectations for future years.

### PHASE I – FINANCIAL REVIEW

Deloitte & Touche LLP has been asked to estimate, with the greatest possible accuracy, those obligations which the Government must meet for the current year, the revenues it will have to do so, and the impact of the current year situation on the next fiscal two years – April 1, 2000 to March 31, 2002.

The firm has also been asked to identify the implications of this situation on (a) the Province's ability to meet debt repayment schedules under *The Balanced Budget, Debt Retirement and Taxpayer Protection Act* and (b) the ability to meet anticipated demand for public services.

The review was directed to cover 41 organizations that are Government Departments, Crown Organizations, Crown Enterprises, or Special Funds (herein called entities):

- **Government Departments:** organizations that are under the direct control and authority of the Government and are responsible to a Cabinet Minister.
- **Crown Organizations:** organizations which are funded by and responsible to the Government through a Department and/or Cabinet Minister, but which are not under the Government's direct control and authority.

- **Government Enterprises:** Crown corporations or agencies which are not funded from Government directly but operate with a legislated mandate and are responsible to a Cabinet Minister.
- **Special Funds:** distinct special purpose funds apart from the Government's Operating Fund, which house revenues from specified sources in accordance with legislation.

The 41 entities reviewed are listed in Appendix A.

## PHASE II – EXPENDITURE MANAGEMENT REVIEW

As a second and related phase of work, Deloitte & Touche LLP has been asked to examine the process by which budgets are developed and make recommendations on how to improve the accuracy of future budgets. The firm has also been asked to consider the process the Government uses to ensure expenditure performance to approved budgets. The report on this phase of our review work will be issued separately.

Since 1995, the Government has spent or has commitments related to information management and information technology projects exceeding \$500 million. Accordingly, based on direction from the Steering Committee, we placed a particular focus on a review of this investment. Our findings are provided in a separate report, **Information Technology Major Initiatives Review**.

## B. THE REVIEW PROCESS

The review process included a project governance mechanism, guiding considerations, and our approach to obtaining and reviewing entity information.

### 1. PROJECT GOVERNANCE: STEERING COMMITTEE

The Minister of Finance appointed a Steering Committee chaired by Ron Hikel and including senior provincial officials, the Provincial Auditor, and a representative of the business community, to oversee the review process. In addition to the Committee Chair, the membership includes: Pat Gannon, Deputy Minister of Finance; Don Potter, Secretary to Treasury Board; Jon Singleton, Provincial Auditor; Jim Eldridge, Clerk of the Executive Council; and Bev Suek, Director of TLS Enterprises. Deloitte & Touche LLP met with this group regularly to report progress and discuss issues raised in the course of the review.

The Steering Committee provided guidance on the work plan and process and reviewed and commented on draft reports. We appreciate their assistance and support throughout the process, particularly their flexibility in allowing additional time for us to complete review activities so that we might report on them more fully.



## 2. GUIDING CONSIDERATIONS

A number of considerations have framed this review:

### 2.1 *The Public Sector Accounting Board (PSAB) of the Canadian Institute of Chartered Accountants (CICA) and Generally Accepted Accounting Principles (GAAP)*

A significant attribute of financial reporting is the application of consistent accounting treatment, both between periods for the same entity and between similar types of entities. As a means of achieving consistency amongst various public sector entities, the Canadian Institute of Chartered Accountants (CICA) has authorized its Public Sector Accounting Board (PSAB) to issue recommendations and guidance with respect to matters of accounting in the public sector. We have used this guiding framework as we conducted our review.

Accounting is the process of measuring, recording, classifying, summarizing, communicating and interpreting economic activity. We live in an era of accountability and accordingly, the nature of accounting and the function that it fulfills is vital to all units of society including government. For government, the use of accounting as a basis for controlling its resources and measuring its accomplishments is critical. The underlining purpose of accounting is to provide financial information to assist in the decision-making process about the entity being reported upon. Financial statements provide the most important method for communicating this financial information.

In Canada, the Canadian Institute of Chartered Accountants (CICA) is the most prominent and influential group in the development and improvement of financial reporting and accounting practices. According to the Canadian Institute of Chartered Accountants (CICA) Handbook, *"the objective of financial statements is to communicate information that is useful to . . . users in making their resource allocation decisions and/or assessing management stewardship. Consequently, financial statements provide information about; (a) an entity's economic resources, obligations and equity/net asset, (b) changes in an entity's economic resources, obligation and equity/net asset, and (c) the economic performance of the entity"*. (CICA Handbook S 1000.15.) The CICA Handbook goes on to state that the four principal qualitative characteristics of financial statements are their understandability, relevance, reliability, and comparability.

To ensure that financial statements remain understandable and relevant, they must comply with an overriding set of principles referred to as "Generally Accepted Accounting Principles" (GAAP). The term Generally Accepted Accounting Principles encompasses the rules, practices and procedures related to particular circumstances in the preparation of financial reporting and also broad principles and conventions of general application. The purpose of these broad rules is to guide in the measurement and reporting of financial events that make up the life of an entity. CICA has issued a number of significant recommendations on accounting standards that are contained in the CICA Handbook and are considered as Generally Accepted Accounting Principles.



For an entity's financial information to meet the qualitative characteristics of understandability, relevance, reliability and comparability, Generally Accepted Accounting Principles must be followed. If financial statements are not based on GAAP, they can often lead to misleading understanding of the financial position being reported. As well, information may be provided in such a manner that it would not be (a) relevant to the users, or (b) reliable (as it may not faithfully represent the underlying economic activity that has occurred in a neutral and conservative way). Lastly, if a consistent set of Generally Accepted Accounting Principles has not been applied, a comparability of financial information from one period to another and from one similar entity to another is compromised.

Generally Accepted Accounting Principles (GAAP) are the cornerstone of the CICA's foundation for proper financial reporting. Each year, the Provincial Auditor assesses the Government's adherence to GAAP, and in a number of past reports he has qualified his opinion due to the lack of full GAAP reporting.

In the course of our report, where the Government's financial reporting has not been or is currently not in accordance with GAAP, this fact is noted.

## 2.2 Independence

As outlined in our proposal to the Province, we identified three entities with which we have had professional service relationships within the past two years. To be certain that the reviews of these entities were independent, we engaged individual contractors to handle selected reviews. Wintemute Randle Kilimnik completed the review work related to Manitoba Lotteries Corporation, Manitoba Housing, and the Manitoba Housing and Renewal Corporation. G. Braha & Associates Ltd. conducted the review related to the Better Methods implementation, and the report on this review is included with our separately released report **Information Technology Major Initiatives Review**.

## 2.3 Materiality

Given the urgency of the Government's need to come to conclusions quickly about the current financial situation, the terms of reference for the review established a materiality provision as follows:

*For purposes of this review, transactions or programs should be considered to be material if they have the potential to result in adjustments in the \$10 million range for 1999/2000 or any prior period, where this is justified. In addition, consideration should be given to potential adjustments which during the present fiscal year may be less than this, but which represent a material potential cost in future years.*

## 2.4 Focus on Financial Results

This is a financial review and is **not an audit** of the Government of Manitoba or any of its entities, and as well is **not directed to questions of performance of programs in meeting their objectives**. The review is focused on understanding the current year's projected financial results

compared to the approved budget for 1999/2000, and is not intended to assess the value provided by specific revenues and expenditures.

In establishing the exact nature of the work that we would undertake, we were guided by the principles set out in the General Review Standards of the Canadian Institute of Chartered Accountants (CICA). Section 8100 of the CICA's Assurance Recommendations indicates that:

*"Reviews are distinguishable from audits in that the scope of a review is less than that of an audit and therefore the level of assurance provided is lower. A review consists primarily of enquiry, analytical procedures and discussion related to information supplied to the public accountant by the enterprise . . . A review consists primarily of (a) making enquiries concerning financial, operating, contractual and other information, and considering responses that, in addition to oral responses, may take the form of listings, schedules or other documents; (b) applying analytical procedures such as comparing the current and prior period information and considering the reasonableness of financial and other inter-relationships; (c) having discussions with appropriate officials of the enterprise concerning information received and the information being reported on."*

## **2.5 Reliance on Information Provided by Provincial Officials**

To establish the picture of the Government's financial position, we have reviewed and analyzed information provided by provincial officials, looking at multiple sources (e.g., Treasury Board and individual Departments) where possible in order to ensure consistency and completeness. Within the time constraints imposed by review, we have sought corroboration regarding information provided by provincial officials. However, as confirmed with the Steering Committee at the commencement of Phase I work, **we have not conducted a substantive and direct verification process with respect to expenditure or revenue projections for individual Departments and programs.** The timeframe for the review did not allow for this analysis.

Over the course of the review, our ongoing discussions with provincial officials on a variety of issues led to a number of results:

- Our examination triggered a comprehensive review of asset valuation by departments far earlier in the year than it would otherwise have taken place.
- We contributed to discussions between the Minister of Finance and the Provincial Auditor with respect to the implementation of Generally Accepted Accounting Principles (GAAP) for financial reporting.
- We highlighted the size of the structural deficit.

We participated in extensive discussions on the issue of asset valuations, and gave consideration to several proposals for changes from provincial officials. In most instances, additional provisions were not necessary. In other instances, we agreed with the approach being put forward.

### **3. APPROACH TO OBTAINING AND REVIEWING ENTITY INFORMATION**

The large and complex task of obtaining and reviewing information from the 41 entities required a systematic and iterative approach to dealing with provincial officials and documentation.

#### **3.1 Orientation and Direction**

As indicated, we met regularly with the Financial Review Steering Committee during the course of the assignment. During these meetings, we reported on the status of our work, discussed issues that had arisen since we had last met, and received direction with respect to specific issues that the Committee members believed should be reviewed. At the outset of the review, we sought the Steering Committee's guidance and direction on how best to proceed in dealing with the 41 entities, and followed through based on that advice.

In order to get an overview and initial orientation to the whole Operating Fund picture, we started with the perspective of central agency officials. We met with Treasury Board Secretariat staff and reviewed documentation prepared by them that contained financial information entity by entity and that also summarized information across entities. Through a series of meetings and the joint review of briefing documents that had been compiled by Treasury Board staff, we obtained an overview understanding of key issues and considerations relevant to our review of the individual entities. We used this grounding to support our subsequent review of the entity material and our discussions with entity officials.

We also met with the Provincial Auditor and his staff on several occasions to understand their broad perspective on a variety of issues relevant to our review. As part of these discussions, we sought assistance from the Provincial Auditor's Office in the identification of risk areas.

#### **3.2 Gathering and Reviewing Entity Information**

At the beginning of the financial review process, the Chairman of the Financial Review Steering Committee wrote directly to the senior officials of each of the 41 entities requesting the information noted in Appendix B. This material was subsequently forwarded to Deloitte & Touche and we assigned a working team of specialists to the review of each of the entities.

Appendix C lists the more than 300 documents and reference materials we examined in the course of our review. The working teams for each entity reviewed the material that was submitted and then met with representatives selected by the Deputy Minister or organizational head to discuss, confirm, and clarify the information provided. The number of meetings with officials depended on the magnitude and complexity of the entity and/or its financial issues. Appendix D lists in excess of 130 interviews and discussions that occurred over the course of the assignment.

Our interaction with entity officials focused on points of variance from approved budgeted expenditures or revenues. In the course of our discussions, we sought evidence to verify or corroborate the variance information that we had originally received. This evidence was normally provided through corroboration of the information by independent parties and from relevant documentation that supported the variance.

### **3.3 Entity Reporting**

To ensure that the review process captured the entity by entity findings correctly, the Steering Committee asked that we prepare a separate report on each entity for our working files, according to the guidance contained in Section 9100 of the Assurance Handbook of the Canadian Institute of Chartered Accountants. Accordingly, each report sets out the procedures undertaken as part of the Phase I work (i.e., who we met with and which documents we reviewed) as well as the results of our completing these procedures. Generally, these results were reported under the following categories:

- Overview
- Summary of Our Work
- Historical Financial Perspective
- 1999/2000 Projected Results
- Looking Ahead to 2000/2001 and 2001/2002
- Future Issues Affecting Observations
- Other Observations (if any)

Each entity report sets out the procedures undertaken as part of Phase I work on the entity as well as the results of our completing these procedures. As required, we prepared individual reports on each of the 41 entities.

### **3.4 Confirmation of Findings by Senior Entity Officials**

Given the extent of the review process and the importance of ensuring accuracy and completeness of our findings, we worked with the Chairman of the Financial Review Steering Committee to establish a process for senior officials to formally (in writing) confirm the information contained in each of the entity reports. Accordingly, the reports that were prepared by us for each entity were then provided to senior officials (e.g., Deputy Ministers of departments) in draft form for their review.

Following their review of the reports, and after we made changes as needed, senior officials were asked to provide a sign-off (see Appendix E for the sign-off letter) on the reports for their entities, thereby documenting their representations to us about the completeness and accuracy of the entity reports. For the departments, we met with each Deputy Minister to discuss his or her comments and observations on the reports prior to completing the sign-off process.

The 41 signed entity reports have served as significant input documents in the preparation of this final report.



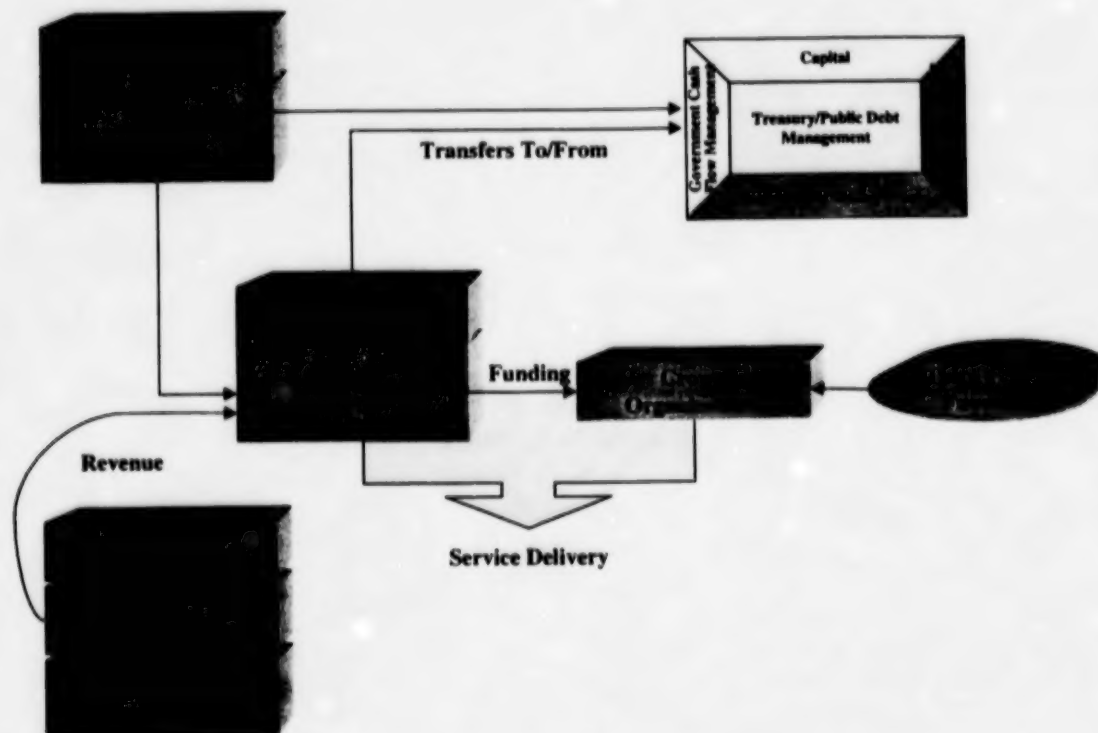
The mandate provided to us by the Financial Review Steering Committee of the Province set out four different types of organizations that were to be included within the scope of the review:

- Departments;
- Crown Organizations;
- Government Enterprises; and,
- Special Funds.

These four are the component parts of the Province's aggregate financial position, so we have used these four categories of entities to frame our perspective of the various components of the Province's financial landscape.

A description of the four categories is included in Appendix F. Their relationships in the context of government finances are illustrated in Exhibit 5.

### Exhibit 5 – Understanding of Government Finances





## D. ORGANIZATION OF THIS REPORT

In undertaking to report on a review of this complexity, it is essential to provide the reader with a logical and clear narrative that captures the essence of the review process and results. We have endeavoured to meet this objective and at the same time reflect carefully and comprehensively the substance of our findings.

We have organized the report into six chapters, starting with an introduction that provides the reader with the context for the review and an understanding of how we proceeded. The second chapter, *Assessment of the Government's Financial Position*, is central to understanding the Government's current financial circumstances and how they came about. Another key theme captured in Chapter II is a look ahead to the next two years, noting the implications of an array of financial pressures that have been identified by provincial officials.

Chapter III, *Analysis of the Financial Condition of the Province*, reports on an examination of the underlying financial health of the Province – a foundation that is pivotal to the Government's ability to plan its financial course.

Given an appreciation of the Government's current financial state (Chapter II) and the underlying financial condition of the Province (Chapter III), the reader is subsequently provided with a description of key findings and recommendations related to financial management (Chapter IV) and financial reporting (Chapter V). Our report ends with Chapter VI, detailing our conclusions and recommendations for the Government's consideration.

|             |                                                     |                                                                                                                                                                   |
|-------------|-----------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Chapter I   | Introduction                                        | Description of the terms of reference for the review, the review process, the components of the Province's financial picture, and the organization of the report. |
| Chapter II  | Assessment of the Government's Financial Position   | Examination of the underlying financial situation as reflected in a five-year perspective: the previous two years, the current year, and the next two years.      |
| Chapter III | Analysis of the Financial Condition of the Province | Examination of the sustainability, flexibility and vulnerability of the Province's basic financial condition.                                                     |
| Chapter IV  | Financial Management Issues and Recommendations     | Findings and advice related to financial management aspects of the Government's situation in 1999/2000 and beyond.                                                |
| Chapter V   | Financial Reporting Issues and Recommendations      | Findings and advice related to financial reporting aspects of the Government's situation.                                                                         |
| Chapter VI  | Our Conclusions                                     | Highlights of our findings and advice to the Government on next steps.                                                                                            |

## II. ASSESSMENT OF THE GOVERNMENT'S FINANCIAL POSITION

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We were asked in this review to estimate the Government's expenditure obligations for the current year, the revenue it will have to meet those obligations, and the impact of the 1999/2000 situation on the next two years. The objective was to produce a general picture of the Government's financial position.

We have identified six key factors shaping the overall financial reality. These factors must be understood to have an appreciation of the Government's financial position. They are:

- The legislative environment, including the balanced budget legislation;
- The main tools that the Government uses for public debt management;
- The principal fiscal management tools;
- The Operating Fund, from which the costs of government are met;
- The role of Government Enterprises as part of the main business of the Government; and,
- The Government's unfunded pension liability.

### A. LEGISLATIVE IMPERATIVE: BALANCED BUDGETS

*The Balanced Budget, Debt Repayment and Taxpayer Protection and Consequential Amendments Act* (balanced budget legislation) became effective in November, 1995. It contains three major provisions:

#### 1. BALANCED BUDGET/NO DEFICIT PROVISIONS

The Act stipulates that the Government cannot incur a deficit unless one of three specific circumstances arises:

- a serious disaster has occurred;
- war; or,
- reduction in revenue in a single year of 5% or more.

In the absence of one of these events, if the Government incurs a deficit, financial penalties are applied to members of Executive Council (Cabinet Ministers). Furthermore, the Act requires that any deficit incurred in one year must be offset by an equal or greater surplus in the subsequent year.

However, Section 4(2) of the Act indicates that "*if there is a general election and the party forming the government after the election is different from the party forming the government before the election, Subsection (1)*[the provision that a deficit be offset with a equal or greater surplus in the next fiscal year] *does not require the government after the election to achieve an offsetting surplus in connection with the deficit incurred in the fiscal year during which the election took place*".

In this regard, there is no clear cut-off point at which the obligations of one government come to an end and a new government becomes responsible for financial outcomes. For instance, there is no clarity regarding the application of the Act in the event that financial outcomes are affected by decisions of a new government subsequent to an election. Such decisions could include policy decisions to make expenditures or valuation determinations that might lead to the recording of write-downs of investments in government accounts.

Attribution of expenditures to either an incoming or outgoing government would require judgements regarding when the circumstances arose that necessitated the expenditures. In any event, all recorded expenditures and valuation provisions must still be sanctioned as appropriate transactions by the Provincial Auditor in order for his opinion on the reported financial results to be without reservation or qualification.

The Government has obtained legal opinions on the provisions of the balanced budget legislation upon a change in government. We understand that these opinions indicate that a new government would not be required to run an offsetting surplus in its first budget should a deficit be incurred in the transition year. Similarly, the opinions suggest that the penalty provisions under the Act are not applicable to members of the outgoing administration which prepared the budget for the year in question, or to the incoming administration which has yet to present its first budget. As well, the legal opinions suggest that there is no requirement to offset any deficit by transfers from the Fiscal Stabilization Fund.

Finally, with respect to the Fiscal Stabilization Fund, the Act states that a targeted balance for the Fund should be 5% of operating expenditures or approximately \$300 million. However, the Act does not mandate this targeted balance. Rather, the Act states that a Minister should "make every effort" to ensure that the Fund reaches at least the targeted level.

## **2. DEBT RETIREMENT**

The balanced budget legislation contemplates that the provincial debt will be retired by approximately 2030 and at least a minimum amount will be paid on the debt each year. The payment for 1999/2000 is set at \$75 million, with the required payment for 2000/2001 being approximately \$96 million. These payments are treated for purposes of the balanced budget legislation as expenditures within the current year's Operating Fund transactions, although we note that this approach is not in accordance with Generally Accepted Accounting Principles (GAAP). The legislation currently does not refer to the unfunded pension liability.

## **3. TAXPAYER PROTECTION**

Taxpayer protection relates to the balanced budget legislation that requires a referendum in the event that the Government entertains the prospect of increasing the rates of major taxes such as personal and corporate income tax, the health and education levy, and retail sales taxes. This requirement significantly limits the Government's flexibility to increase revenues from existing own-source revenues.

## **B. PUBLIC DEBT MANAGEMENT**

Public debt management is comprised of several activities, including:

- Monitoring the Province's cash flow and debt requirements for both operating and capital items;
- Undertaking capital market activities to finance cash requirements, and managing the investments of specific funds as required;
- Managing interest rate, currency risk, and credit risk of the Province and agencies; and,
- Managing and monitoring public debt costs.

### **1. BORROWINGS**

The Province has borrowed money for a variety of reasons, including raising the financing for:

- Loans made to Government Enterprises, such as Manitoba Hydro and to Crown organizations such as Manitoba Housing and Renewal Corporation;
- Capital asset purchases that will be used and paid for over a period of years;
- Past Operating Fund deficits and past allocations to the Sinking Fund; and,
- Investments made by the Province, such as those made by the Department of Industry, Trade and Mines.

At March 31, 1999, the Province's most recent year end, aggregate borrowings were approximately \$18.6 billion (including Government Enterprises). These were offset by a sinking fund consisting of investments in the order of \$5.8 billion, held for the purpose of repaying the debt. Net borrowings therefore amount to about \$12.8 billion. Of this amount, about \$5.2 billion is related to borrowings for loans to Manitoba Hydro. Much of the remainder of the debt arose in past years to fund tax supported programs.

### **2. NEW CAPITAL ASSET ACCOUNTING POLICY**

A new public debt issue relates to the new capital asset accounting policy, which applies to provincial assets. Other assets, such as hospitals and schools are not affected by this policy as they are recorded in the Crown and related organizations that own them.

Before the 1999/2000 year, capital expenditures were recorded as costs of the Operating Fund in the year they were incurred and were funded out of current revenues. Beginning with the 1999/2000 year, non-infrastructure capital asset purchases are budgeted for separately and are to be financed by new borrowings. The capital assets are then to be charged to the Operating Fund by means of an annual amortization expense over their useful lives. Borrowings are then to be paid off according to the terms of the debt that have been arranged. The original approved Capital Expenditure Estimate for 1999/2000 was \$113.3 million.

The annual aggregate amortization charges against the revenues of the Operating Fund are obviously not a cash expenditure, since the purchases of the capital assets were initially funded



by debt. Therefore, an amount equal to the amortization should be available for cash payments against the debt.

As a consequence of this new policy, debt will be incurred for the acquisition of capital assets whereas it would not have been under the former policy. This will lead to increases in public debt that are not provided for in the current balanced budget legislation. The change has introduced a new dynamic into the management of the Province's debt and has the following implications:

- Debt retirement associated with the annual amortization of the capital assets is not currently contemplated by the debt retirement provisions of *The Balanced Budget, Debt Retirement and Taxpayer Protection Act* (balanced budget legislation). The provisions of the balanced budget legislation need to be integrated with the plans to retire debt incurred to fund capital expenditures.
- As the need to retire debt raised for capital purposes commits future cash flows, it is desirable that an overall long-term framework that integrates capital requirements of government be developed. This framework would ensure that there are no unexpected negative long term implications of capital decisions in any given year. However, we are not aware that a longer term framework has been developed to plan, monitor and control the extent of annual capital purchases and the resulting additional debt burden.

### 3. MITIGATING RISK

The principal risk affecting the management of public debt within the context of the entire expenditure budget of the Operating Fund is the variability of public debt costs or interest. The variability is, of course, affected by both the amount of debt, the borrowing rate, and currency fluctuation.

The amount of debt has been managed in recent years based on the provisions of the balanced budget legislation and the borrowing authorities available under *The Financial Administration Act*. Provincial officials have indicated that various strategies have been employed over time in an effort to reduce effective borrowing rates. Currently, these strategies include:

- *Utilizing the flexibility provided by the investments within the Sinking Fund to try to arrange the optimal timing for transactions in the capital markets.*
- *Reducing foreign currency denominated debt.* The Province no longer has any exposure to foreign currency other than US dollars. Exposure has been reduced from 33% in 1995 to 18% today. This reduction mitigates the risk of significant fluctuations in debt costs because of changes in foreign currency rates.
- *Holding a mix of fixed rate and floating rate debt to enable the Province to benefit from ongoing changes to market interest rates.* Currently, the Province's practice is to have approximately 15% to 20% of its borrowings in variable interest rate instruments, down from 27% in 1996.



#### 4. THE SINKING FUND

As described earlier, the Sinking Fund is comprised of investments that are held for the purpose of retiring debt. Accordingly, it is used by Manitoba Finance primarily as a liquidity management tool. For instance, cash that is to be used to repay debt is invested in the Sinking Fund until the maturity of the debt issue it is to be used to repay. In other instances, gross borrowings have been increased to fund growth of the Sinking Fund.

Manitoba Finance has indicated that Sinking Funds continue to be useful in managing public debt costs, and add greater stability to the Province's refinancing activities.

### C. MANITOBA'S FISCAL MANAGEMENT TOOLS

The Government has two primary fiscal management tools – the Fiscal Stabilization Fund and the Debt Retirement Fund.

#### 1. FISCAL STABILIZATION FUND

The Fiscal Stabilization Fund was established through the proclamation of *The Fiscal Stabilization Fund Act* in December, 1989. The purpose of the fund is to assist in stabilizing the fiscal position of the Government from year to year and to facilitate the Government's long term fiscal planning. The Act sets a target level for the Fund equal to 5% of the Operating Fund expenditure estimates. Based on an annual expenditure budget of approximately \$6 billion, the target level is in the order of \$300 million.

As of April 1, 1997, the fund contained a balance of \$577 million as a result of the following transactions since its inception, as noted in Exhibit 6.

**Exhibit 6 – Fiscal Stabilization Fund Transactions Since Inception**

(in millions)

|                                                                                                                           |       |
|---------------------------------------------------------------------------------------------------------------------------|-------|
| Redemption of preferred shares formerly owned in Repap Enterprises Inc. (1996)                                            | \$20  |
| Net transfers from the Operating Fund                                                                                     |       |
| • Re: sale of Manitoba Data Services (1991)                                                                               | 18    |
| • Re: sale of Manitoba Telecom Services Inc. (1997) – gross proceeds net of amount used for health capital debt repayment | 265   |
| • Re: other (net surplus/deficit of 1989, 1991-1994, 1996, 1997)                                                          | 161   |
| Interest Earnings on Fund Balance                                                                                         | 113   |
| Balance as at April 1, 1997                                                                                               | \$577 |

A summary of the transactions of the Fiscal Stabilization Fund since April 1, 1997 is provided in Exhibit 7.

## Exhibit 7 – Fiscal Stabilization Fund 1998-2000

| (in millions)                                           | Year Ended March 31 |       |                    |           |
|---------------------------------------------------------|---------------------|-------|--------------------|-----------|
|                                                         | Actual              |       | 2000               |           |
|                                                         | 1998                | 1999  | Budget             | Projected |
| Balance of Fiscal Stabilization Fund, beginning of year | \$577               | \$565 | \$427              | \$427     |
| Interest earnings                                       | 12                  | 17    | 11 <sup>1</sup>    | 11        |
| Net Transfers out to the Operating Fund                 | (24)                | (155) | (163) <sup>2</sup> | (185)     |
| Balance of Fiscal Stabilization Fund, end of year       | \$565               | \$427 | \$275 <sup>3</sup> | \$253     |

<sup>1</sup> Amount as per the 1999/2000 second quarter report.

<sup>2</sup> \$184 million transfer net of budgeted \$21 million surplus for 1999/2000.

<sup>3</sup> Differs from the budgeted March 31, 2000 balance set out in the 1999/2000 budget document because the actual opening balance for the 1999/2000 year was \$47 million higher than the estimated "starting position" in the budget.

As indicated in the exhibit, the Fiscal Stabilization Fund presently has \$253 million available, assuming the transfer out of \$185 million this year.

## 2. DEBT RETIREMENT FUND

The balanced budget legislation requires that as Government reduces the amount of the Province's debt and thereby achieves reductions in public debt costs, these cost savings are to be added to the required amount of debt reduction in future years. The objective of this provision is to have aggregate annual payments toward public debt costs and debt retirement remain approximately constant until the entire debt is repaid.

The Government may apply more towards retiring the debt if it so desires, and has done so once. In 1998/1999, an additional \$75 million was transferred to the Debt Retirement Fund. Total transfers to the fund to be used to reduce provincial debt have amounted to approximately \$300 million, as illustrated in the Exhibit 8.

## Exhibit 8 – Debt Retirement Fund

| (in millions)                                      | Year Ended March 31 |       |        |
|----------------------------------------------------|---------------------|-------|--------|
|                                                    | Actual              |       | Budget |
|                                                    | 1998                | 1999  | 2000   |
| Balance of Debt Retirement Fund, beginning of year | -                   | \$76  | \$230  |
| Interest earned                                    | 1                   | 4     | -      |
| Deposits to the Fund from the Operating Fund       | 75                  | 150   | 75     |
| Withdrawal to pay down general purpose debt        | -                   | -     | (305)  |
| Balance of Debt Retirement Fund, end of year       | \$76                | \$230 | -      |

As noted earlier in this report, the Government has obtained legal opinions that it does not have discretion as to the amount to be contributed to the Debt Retirement Fund in the fiscal year in which it assumes office. Instead, the contribution must be made according to the prescribed formula. As well, it should be noted that in spite of the additional payment of \$75 million made towards the Debt Retirement Fund in the 1998/1999 year, this does not reduce the obligation for payments to be made in subsequent years. The 1999/2000 obligation remains at \$75 million. In 2000/2001 the obligation increases to \$96 million.

## **D. THE OPERATING FUND**

As the centrepiece for Government revenues and expenditures, the Operating Fund is a focal point when assessing the Government's financial position. Annual estimates for Operating Fund revenues and expenditures are authorized by the Legislative Assembly. The Government reports back to the Legislature on the Operating Fund's performance after the end of the fiscal year. This is its principal means of public accountability.

In this section, we describe the key components of the Operating Fund, identify significant trends over the past two years, estimate results for the current year, note issues that may affect future operations, and give special attention to Crown organizations.

### **1. COMPONENTS OF THE OPERATING FUND**

The Operating Fund has four components: revenue, expenditures, debt repayment requirements, and transfers from the Fiscal Stabilization Fund.

#### **1.1 Revenues**

The Province's Operating Fund has three primary sources of revenue, as noted in Exhibit 9.

## Exhibit 9 – Operating Fund Revenue Sources for 1999/2000

| Revenue Source     | 1999/2000 Estimates (in millions) | Description of Revenue                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |
|--------------------|-----------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Taxation           | \$3,569                           | <b>Manitoba Consumer and Corporate Affairs</b> <ul style="list-style-type: none"> <li>Insurance corporations tax</li> <li>Land transfer tax.</li> </ul> <b>Manitoba Conservation</b> <ul style="list-style-type: none"> <li>Oil and natural gas tax</li> </ul> <b>Manitoba Finance:</b> <ul style="list-style-type: none"> <li>Individual income tax</li> <li>Corporate income tax</li> <li>Retail sales tax</li> <li>Levy for health and education</li> <li>Corporation capital tax</li> <li>Tobacco tax</li> <li>Several other taxes</li> </ul> |
| Federal Government | \$1,723                           | <ul style="list-style-type: none"> <li>Equalization payments</li> <li>Canada Health and Social Transfer</li> <li>Other transfer payments</li> <li>Cost-shared agreements</li> </ul>                                                                                                                                                                                                                                                                                                                                                               |
| Other Revenues     | \$790                             | <ul style="list-style-type: none"> <li>Departmental activities</li> <li>Payment of net surpluses from Manitoba Lotteries Corporation and Manitoba Liquor Control Commission</li> <li>Revenue sharing from Special Operating Agencies</li> <li>Sales of government assets</li> <li>Allocations from the Fiscal Stabilization Fund<sup>1</sup></li> </ul>                                                                                                                                                                                           |
| Total              | \$6,082                           |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |

<sup>1</sup>As noted previously, transfers from the Fiscal Stabilization Fund are not to be considered revenue in accordance with Generally Accepted Accounting Principles.

The amount of equalization payments that the Province receives is affected by the amount of per capita revenue that is collected for the previous year, various population statistics and a variety of other factors. Generally, if Manitoba's per capita revenues rise in relation to per capita revenue in the "standard" provinces (British Columbia, Saskatchewan, Manitoba, Ontario and Quebec), its entitlement under equalization decreases. Conversely, if per capita revenues fall in relation to per capita revenue in the "standard" provinces, equalization revenues would usually increase.

### 1.2 Expenditures

The Departments we examined are responsible for the great majority of the annual expenditures from the Operating Fund. However, other expenditures are made from enabling appropriations and other appropriations, as described in Exhibit 10.

## Exhibit 10 – Operating Fund Expenditure Categories

| <i>Nature of Expenditure</i> | <i>1999/2000 Estimates (in millions)</i> | <i>Description</i>                                                                                                                                                                                                                                                                                                                                                                                                                                 |
|------------------------------|------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Departmental                 | \$5,838                                  | These expenditures are the responsibility of individual government departments that fulfill their respective mandates using these monies. Individual departments are responsible for the management and monitoring of expenditures within their approved budgets.                                                                                                                                                                                  |
| Enabling Appropriations      | \$41                                     | Enabling appropriations are under the control of Treasury Board and serve as the budgets for categories of recognized expenditures, but for which the amounts are not known at the time the annual estimates are prepared. Enabling appropriations make provision for items such as various special initiatives of the Government, wage settlements, and costs for activities to be undertaken in accordance with federal-provincial agreements.   |
| Other Appropriations         | \$107                                    | Other appropriations, also under the control of Treasury Board, serve as the budgets for categories of expenditures that are recognized will be incurred, but for which projects are to be individually approved prior to being commenced. Accordingly, these appropriations make provisions for emergency expenditures, capital initiatives and a variety of other commitments to spend on certain initiatives or pursuant to certain agreements. |
| Total                        | \$5,986                                  |                                                                                                                                                                                                                                                                                                                                                                                                                                                    |

### 1.3 Debt Repayment Requirements

The Government is required by the terms of the balanced budget legislation to make contributions to the Debt Retirement Fund. The amount of the required payment for 1999/2000 is \$75 million. For 2000/2001, the required amount is approximately \$96 million.

### 1.4 Transfers from the Fiscal Stabilization Fund

The balanced budget legislation permits transfers of monies from the Fiscal Stabilization Fund to be reflected as revenues of the Operating Fund. The ability to utilize the Fiscal Stabilization Fund in this fashion provides a “fiscal shock absorber” to assist the Operating Fund budget to be “balanced” over a period of time.

The 1999/2000 budget contemplated a transfer of monies into the Operating Fund from the Fiscal Stabilization Fund. Accordingly, the “other revenues” of \$790 million identified in Exhibit 9 include a planned transfer from the Fiscal Stabilization Fund of \$184.7 million.

As the Provincial Auditor has noted in his annual reports, the Government’s treatment of transfers from the Fiscal Stabilization Fund as revenues is not in accordance with GAAP.

## 2. SIGNIFICANT TRENDS WITHIN THE OPERATING FUND OVER THE LAST TWO YEARS

The results of the Operating Fund, as presented in Volume 1 of the Province’s financial statements for the past two years, can be summarized in Exhibit 11.



## Exhibit 11 – Previous Years' Operating Fund Results

| <i>Revenues</i>                                                                                        | <i>1997/1998<br/>(in millions)</i>   |               | <i>1998/1999<br/>(in millions)</i>   |               |
|--------------------------------------------------------------------------------------------------------|--------------------------------------|---------------|--------------------------------------|---------------|
|                                                                                                        | <i>Original Budget<br/>Estimates</i> | <i>Actual</i> | <i>Original Budget<br/>Estimates</i> | <i>Actual</i> |
| Taxation                                                                                               | \$3,169                              | \$3,251       | \$3,345                              | \$3,701       |
| Other                                                                                                  | 588                                  | 607           | 605                                  | 622           |
| Federal Government                                                                                     | 1,555                                | 1,884         | 1,733                                | 1,559         |
|                                                                                                        | 5,312                                | 5,742         | 5,683                                | 5,882         |
| <i>Expenditures</i>                                                                                    | 5,310                                | 5,691         | 5,736                                | 5,886         |
| Surplus (Deficit) Before Transfer<br>from the Fiscal Stabilization Fund<br>and Debt Retirement Payment | 2                                    | 51            | (53)                                 | (4)           |
| Debt Retirement                                                                                        | (75)                                 | (75)          | (150)                                | (150)         |
| Surplus (Deficit) Before Transfer<br>from Fiscal Stabilization Fund                                    | (73)                                 | (24)          | (203)                                | (154)         |
| Transfer from Fiscal Stabilization<br>Fund                                                             | 100                                  | 100           | 226                                  | 185           |
| Budgetary Surplus                                                                                      | \$27                                 | \$76          | \$23                                 | \$31          |

This budget to actual picture for the past two years illustrates significant variances in both revenues and expenditures, with a clear pattern of revenue increases being available to offset the impact of major overexpenditures. This pattern has continued into the current fiscal year.

### 2.1 Key Revenue Trends 1997-1999

As shown in Exhibit 11, the following revenue trends are evident over the last two years:

- **Actual vs. Budget** – actual revenues received by year end exceeded budgeted revenues by \$430 and \$199 million respectively over the last two years. This trend of actual revenues substantially exceeding initial estimates continues in the current year. In 1997/98, the excess was used primarily to support increased expenditures, including Manitoba's costs associated with the 1997 flood. The positive revenue variance in 1998/99 was again used to offset increased expenditures, but also to reduce the amount of the transfer from the Fiscal Stabilization Fund. For 1999/2000, the increased revenues will again offset a substantial portion of the increased expenditures.

As Exhibit 11 indicates, revenue from taxation was significantly up from budget to actual in 1998/1999, due primarily to the delayed tax revenue from the extension of the income tax filing deadline for Manitobans affected by the 1997 flood. However, this increase in tax revenue caused a corresponding decrease in federal government equalization transfers for that year.

- **Taxation Revenues** – the actual \$450 million increase in these revenues over the two years was attributable to strong growth in corporate and individual income taxes as well as retail sales tax. Concurrently, personal income tax revenues have been affected by federal and provincial income tax rate reductions in 1998/99.
- **Other Revenues** – the increase is largely from transfers from the Manitoba Lotteries Corporation and the Manitoba Liquor Control Commission.
- **Federal Government** – the decline in actual federal revenues of \$325 million in 1998/1999 is the result of reduced equalization payments of \$252 million, reduced revenues for emergency expenditure recoveries of \$140 million, increased revenues of \$45 million with respect to a transfer of responsibility for the Labour Market Development Agreement expenditures, and an increase of \$22 million related to various other revenue changes. The variability of federal government revenue depends on cost-sharing agreements, the economic situation respecting tax revenue, and the impact of these factors on equalization.

## 2.2 Key Expenditure Trends 1997-1999

Our analysis of the past two years pointed to these trends:

- **Budget vs. Actual** – over this period, actual expenditures exceeded the budget amounts by \$381 million and \$150 million respectively. Key observations on these substantial additional expenditures are as follows:
  - the 1997/98 variance was partially attributable to emergency expenditures, including the costs of the 1997 flood, which were about \$190 million higher than the initial budget provisions for emergency expenditures;
  - the source of these variances can be determined with reference to which departments required Special Warrants to increase their expenditure authority as previously approved by the Legislature. Departments with Special Warrants in excess of \$5 million in the two preceding years are noted in Exhibit 12.

### Exhibit 12 – Previous Years' Special Warrants

| Department             | 1997/98 Special Warrants<br>(in millions) | 1998/99 Special Warrants<br>(in millions) |
|------------------------|-------------------------------------------|-------------------------------------------|
| Family Services        | \$11.8                                    | \$6.8                                     |
| Health                 | 98.6                                      | 110.3                                     |
| Justice                | 6.2                                       | 8.0                                       |
| Natural Resources      | 14.3                                      |                                           |
| Urban Affairs          |                                           | 9.9                                       |
| Emergency Expenditures | 190.5                                     |                                           |
| <b>Total</b>           | <b>\$321.4</b>                            | <b>\$135.0</b>                            |

The actual expenditures for each of the last two years were well above the budget amounts approved, and the expenditures forecast for 1999/2000 are above the prior year's actuals. Therefore, the 1999/2000 overexpenditures continue a clear trend of prior years.

Consistent with the dramatic overexpenditure pattern in Manitoba Health, this department has required more than \$200 million in Special Warrants over the two-year period, which represents almost half of the total.

- **Actual Expenditure Increases** – departmental expenditure increases in excess of \$5 million from 1998/99 actuals over 1997/98 actuals and 1999/2000 estimates over 1998/99 actuals are as indicated in Exhibit 13.

### Exhibit 13 – Previous Years' Expenditure Increases

| <i>Department</i>         | <i>98/99 Actual<br/>Over<br/>97/98 Actual<br/>(in millions)</i> | <i>99/00 Budget<br/>Estimates Over<br/>98/99 Actual<br/>(in millions)</i> | <i>Primary explanation of increase</i>                                                                                                                                                                                                                                                         |
|---------------------------|-----------------------------------------------------------------|---------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Legislative Assembly      |                                                                 | \$7.1                                                                     | Costs of holding the 1999 election.                                                                                                                                                                                                                                                            |
| Agriculture               |                                                                 | 14.2                                                                      | Costs of new Agricultural Income Disaster Assistance Program.                                                                                                                                                                                                                                  |
| Culture & Heritage        |                                                                 | 5.0                                                                       | Increase relates primarily to new responsibilities assumed, concurrent with new revenues being obtained.                                                                                                                                                                                       |
| Education & training      | \$74.7                                                          | 58.5                                                                      | Increased costs of providing services; 7.2% and 5.2% respectively.                                                                                                                                                                                                                             |
| Employee benefits         | 6.9                                                             |                                                                           | Increase in pension costs and recording of severance liabilities.                                                                                                                                                                                                                              |
| Family Services           | 5.4                                                             | 40.8                                                                      | Increased costs of delivering service and 1999 implementation of one-tier social assistance in Winnipeg, with offsetting expenditure reduction in Urban Affairs. Now all amounts are paid by Manitoba Family Services, so there is no longer a grant to the City of Winnipeg for this purpose. |
| Government Services       | 11.3                                                            |                                                                           | Implementation of the Desktop Management Initiative, subsequently offset by a budgeted \$5.3 reduction in 1999/2000.                                                                                                                                                                           |
| Health                    | 143.4                                                           | 61.4                                                                      | Increased costs of service delivery; increases of 7.5% and 3.0% respectively.                                                                                                                                                                                                                  |
| Highways                  | 15.0                                                            |                                                                           | Increased funding for construction program and a return to normal construction levels in the year after the 1997 flood.                                                                                                                                                                        |
| Housing                   |                                                                 | 5.3                                                                       | This increase was preceded by a reduction of \$9.0 in 1998/99 over 1997/98.                                                                                                                                                                                                                    |
| Industry, Trade & Tourism | 7.0                                                             |                                                                           | Increase over the original provision for investment losses.                                                                                                                                                                                                                                    |
| Justice                   | 14.0                                                            | 13.3                                                                      | Increased cost of services of 7.9% and 6.9%.                                                                                                                                                                                                                                                   |
| Natural Resources         | 26.8                                                            | 35.1                                                                      | Costs of floodproofing programs, in large measure offset by increased revenues from the federal government.                                                                                                                                                                                    |
| Urban Affairs             | 13.4                                                            |                                                                           | Increase in grant support to the City of Winnipeg for capital programs and residential street renewal.                                                                                                                                                                                         |

Actual departmental expenditures were up 3.5% in 1998/1999 over 1997/1998. Only one department had declining expenditures for the period, and this was due to external influences.

Manitoba Finance actual costs for public debt were reduced by \$4.8 million in 1998/99 over 1997/98 and were projected to be reduced by another \$34.6 million for 1999/2000, due primarily to lower interest rates and increased debt guarantee fee revenues.

The 1999/2000 budget planned for a further 1.7% aggregate expenditure increase over the previous year. However, as set out in the following section, the increase in actual 1999/2000 expenditures over 1998/1999 actual expenditures is projected to be 8.2%. Given the records of the previous two years, this can hardly be unexpected. This pattern illustrates the need for much more efficient budget-making and expenditure control.

It is possible that, to some extent, budgets have become less likely to fully reflect costs that Government knows are unavoidable. Decision-makers may in some instances have preferred to deal with these requirements through year-end adjustments rather than make explicit provisions at the outset of the year. This pattern would only reinforce the gap between budget and actuals. Our Phase 2 report will provide recommendations to address this possibility.

### **3. ESTIMATED RESULTS OF THE OPERATING FUND TO MARCH 31, 2000**

A major focus of this review was to estimate financial results for the Province's Operating Fund for this fiscal year.

#### **3.1 Overview of Projected Results**

Based on our findings from the review process, the estimated results for 1999/2000 are indicated in Exhibit 14 in accordance with the Government's current accounting practice. We have used this basis of reporting so that it is directly comparable to the budget as it was established. However, we note that this approach is not acceptable to the Provincial Auditor as it is not consistent with GAAP, particularly in the area of pension accounting and Fiscal Stabilization Fund transfers. We strongly recommend its modification.

The exhibit illustrates the continuing large expenditure growth year over year in the Departments of Health, Education, Family Services, and Justice.

The forecast includes all expenditures projected by the departments as required in order to continue their existing approved programming on an "as is" basis. The "Additional Potential Variances" of \$35 million we have also identified include provisions for the following types of expenditures that may be incurred prior to March 31, 2000:

- The potential impact of current collective bargaining with various groups in the health care sector – \$10 million;
- Settlement of existing litigation and/or contract disputes. – \$15 million; and,
- A general contingency to provide for likely further adjustments prior to year end consistent with historical experience – \$10 million. This contingency is consistent with the terms of reference for the financial review that transactions not affecting the Province's financial results by \$10 million or more should not be considered material.



Additional expenditures related to these items could amount to as much as \$35 million. Therefore, the forecast deficit for the 1999/2000 year, after the Fiscal Stabilization Fund transfer of \$185 million, is currently estimated to be between \$100 and \$135 million. Exhibit 14 illustrates these results.

#### Exhibit 14 – Projected Results for 1999/2000

|                                                                                               | Variances                       |                       |                                         | Current<br>1999/2000<br>Forecast |
|-----------------------------------------------------------------------------------------------|---------------------------------|-----------------------|-----------------------------------------|----------------------------------|
|                                                                                               | 99/00<br>Published<br>Estimates | Approved <sup>1</sup> | Additional/<br>Anticipated <sup>2</sup> |                                  |
| <b>Revenue</b>                                                                                | \$5,897.5                       |                       | \$259.7                                 | \$6,157.2                        |
| <b>Expenditures</b>                                                                           |                                 |                       |                                         |                                  |
| Health                                                                                        | 2,119.3                         |                       | 158.6                                   | 2,277.9                          |
| Education and Training                                                                        | 1,180.0                         |                       | 18.3                                    | 1,198.3                          |
| Family Services                                                                               | 701.7                           |                       | 8.4                                     | 710.1                            |
| Public Debt                                                                                   | 480.8                           |                       |                                         | 480.8                            |
| Justice                                                                                       | 208.0                           |                       | 4.8                                     | 212.8                            |
| Agriculture                                                                                   | 113.0                           |                       | 7.6                                     | 120.6                            |
| Emergency Expenditures (Re:<br>Flood Assistance and Fire<br>Suppression)                      | 23.5                            | 96.0                  | 18.5                                    | 138.0                            |
| Valuation adjustments                                                                         | -                               |                       | 48.3                                    | 48.3                             |
| Other                                                                                         | 1,159.5                         | 3.4                   | 17.0                                    | 1,179.9                          |
| <b>Subtotal Expenditures</b>                                                                  | <b>5,985.8</b>                  | <b>99.4</b>           | <b>281.5</b>                            | <b>6,366.7</b>                   |
| Deficit Before Transfer from the<br>Fiscal Stabilization Fund and Debt<br>Retirement Payments | (88.3)                          |                       |                                         | (209.5)                          |
| Debt Retirement Payment                                                                       | (75.0)                          |                       |                                         | (75.0)                           |
| Deficit Before Transfer from the<br>Fiscal Stabilization Fund                                 | (163.3)                         |                       |                                         | (284.5)                          |
| Planned Transfer from the Fiscal<br>Stabilization Fund                                        | 184.7                           |                       |                                         | 184.7                            |
| Surplus (Deficit) for the Year                                                                | \$21.4                          | (\$99.4)              | (\$21.8)                                | (\$99.8)                         |
| Additional Potential Variances                                                                |                                 |                       |                                         | (35.0)                           |
|                                                                                               |                                 |                       |                                         | \$(134.8)                        |

<sup>1</sup>These variances have all been approved by Special Warrants.

<sup>2</sup>Additional, anticipated expenditures may have departmental and/or Treasury Board approval, funding authority for the expenditures has not yet been put in place.

Projected revenues include a one-time \$131 million Canada Health & Social Transfer Supplement from the federal government. The 1999 federal budget set out an allocation of this revenue over a three-year period. Consequently, Manitoba Finance may consider the transfer of about \$56 million from the Operating Fund to the Fiscal Stabilization Fund. This transfer would reflect that part of the health care supplement that relates to subsequent fiscal years according to the federal calculation. Using the financial reporting framework set out in the preceding exhibit,



which is the basis on which the 1999/2000 budget was prepared, the impact of the contemplated transfer would be to increase the deficit by \$56 million.

As we note throughout this report, the process for estimating revenues and expenditures to March 31, 2000 is dynamic and ongoing. The deficit we have projected is based on the most up-to-date revenue and expenditure information available to us, up to and including February 8, 2000. While we have made every effort to provide for all known items, it is reasonable to expect the new circumstances arising after February 8 will affect the amount of the deficit ultimately reported by the Province for the 1999/2000 year.

### 3.2 *Reconciliation of Current Projected Deficit to Interim Report*

Our first assignment in this review was to produce an early and preliminary snapshot of the Government's financial circumstances so that the Government could quickly formulate its fiscal strategy, including expenditure controls and revenue negotiations with the federal government. The November 17, 1999 interim report provided this early indication of the financial situation, focusing attention on the areas of major change from the approved budget to forecast expenditures and revenues in the Province's Operating Fund. We reported a potential deficit of \$262 to \$417 million for the 1999/2000 fiscal year.

We also said that two federal/provincial events could improve this interim financial outlook. These factors were described in the November 17, 1999 report on page 9 as follows:

- *"Manitoba Finance receives revised estimates from the Federal Government based on the various factors that affect the determination of federal revenue accruing to the Province. Information that will be provided in late November will enable the Department to revise its revenue forecasts early in December. In the event that these revised forecasts show enhanced revenue, the forecasted deficit would be reduced accordingly. Manitoba Finance is currently of the view that the revenue will not be eroded by this revised forecast, but may very well be increased beyond the \$41.7 million reflected in the interim report projection."*
- *"The Province of Manitoba continues to pursue the sharing of 1999 flood related costs with the Federal Government. To date, the Federal Government has not indicated any willingness to initiate cost sharing programs for any of the emergency expenditures that have been incurred by the Province. In the event that the Federal Government's position on this matter was to change, the recovery of certain of the flood related emergency expenditures would also reduce the deficit."*

Deloitte & Touche LLP has relied on Manitoba Finance officials for revenue information. We have had no contact with the federal government on this issue. Revised revenue projections were subsequently reported to us by Manitoba Finance officials, who are in contact with the federal government. Further information on revenue was provided to us on January 6, 2000, with updated information provided in early February.

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## Exhibit 15 – Reconciliation to our November 17, 1999 Interim Report

| <i>(in millions)</i>                          | <i>Projected deficit<br/>noted in<br/>Nov. 17, 1999<br/>Interim Report</i> | <i>Revisions to<br/>projections<br/>based on<br/>completed<br/>review</i> | <i>Revised<br/>projected<br/>deficit</i> |
|-----------------------------------------------|----------------------------------------------------------------------------|---------------------------------------------------------------------------|------------------------------------------|
| Revenues                                      | \$5,939.2                                                                  | 218.0                                                                     | 6,157.2                                  |
| Expenditures                                  | 6,311.0                                                                    | 55.7                                                                      | 6,366.7                                  |
| Debt Retirement                               | (371.8)<br>(75.0)                                                          | 162.3                                                                     | (209.5)<br>(75.0)                        |
| Transfer from Fiscal Stabilization Fund       | (446.8)<br>184.7                                                           | 162.3                                                                     | (284.5)<br>184.7                         |
| <b>Projected "Lower end" of Deficit Range</b> | <b>(262.1)</b>                                                             | <b>162.3</b>                                                              | <b>(99.8)</b>                            |
| Additional Potential Variances                | (155.0)                                                                    | 120.0                                                                     | (35.0)                                   |
| <b>Projected "High end" of Deficit Range</b>  | <b>\$(417.1)</b>                                                           | <b>\$282.3</b>                                                            | <b>(\$134.8)</b>                         |

Three key observations are relevant when considering the changes between the earlier deficit projection and our current projection of the deficit:

- In November 1999, Manitoba Finance advised us that updated revenue estimates could not be completed prior to release of new economic and population data by the federal government late in December, 1999. The increase in revenue that we were informed of in January 2000 significantly improves the projected position.
- Projected expenditure levels have increased by \$56 million. Except for certain valuation adjustments amounting to \$10 million, as recommended in the Information Technology Major Initiatives Review, the increases are essentially consistent with those set out in the interim report. These include:
  - A \$33 million valuation provision for the Province's investment in the Health Information Network; and,
  - Increased emergency expenditures of \$20 million.

These increased expenditures were partly offset by some reduced expenditures in other areas.

- The \$155 million estimated for additional potential variances has declined since the interim report primarily due to:
  - Confirmation that \$53 million of the potential costs would be incurred (as set out immediately above);
  - Settlement of litigation with the Manitoba Medical Association, which eliminated a \$27 million claim;
  - Expectation of offsetting revenue from the federal government to eliminate Agricultural Income Disaster Assistance (AIDA) expenditures of \$20 million; and,
  - A policy decision not to extend AIDA assistance to negative margins (\$8 million).

The chronology of events and their financial implications since the release of our November 17, 1999 report are noted in Exhibit 16.

# Exhibit 15 – Reconciliation to our November 17, 1999 Interim Report

| <i>(in millions)</i>                          | <i>Projected deficit<br/>noted in<br/>Nov. 17, 1999<br/>Interim Report</i> | <i>Revisions to<br/>projections<br/>based on<br/>completed<br/>review</i> | <i>Revised<br/>projected<br/>deficit</i> |
|-----------------------------------------------|----------------------------------------------------------------------------|---------------------------------------------------------------------------|------------------------------------------|
| Revenues                                      | \$5,939.2                                                                  | 218.0                                                                     | 6,157.2                                  |
| Expenditures                                  | 6,311.0                                                                    | 55.7                                                                      | 6,366.7                                  |
|                                               | (371.8)                                                                    | 162.3                                                                     | (209.5)                                  |
| Debt Retirement                               | (75.0)                                                                     |                                                                           | (75.0)                                   |
|                                               | (446.8)                                                                    | 162.3                                                                     | (284.5)                                  |
| Transfer from Fiscal Stabilization Fund       | 184.7                                                                      |                                                                           | 184.7                                    |
| <b>Projected "Lower end" of Deficit Range</b> | <b>(262.1)</b>                                                             | <b>162.3</b>                                                              | <b>(99.8)</b>                            |
| Additional Potential Variances                | (155.0)                                                                    | 120.0                                                                     | (35.0)                                   |
| <b>Projected "High end" of Deficit Range</b>  | <b>\$(417.1)</b>                                                           | <b>\$282.3</b>                                                            | <b>(\$134.8)</b>                         |

Three key observations are relevant when considering the changes between the earlier deficit projection and our current projection of the deficit:

- In November 1999, Manitoba Finance advised us that updated revenue estimates could not be completed prior to release of new economic and population data by the federal government late in December, 1999. The increase in revenue that we were informed of in January 2000 significantly improves the projected position.
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  - A \$33 million valuation provision for the Province's investment in the Health Information Network; and,
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  - Confirmation that \$53 million of the potential costs would be incurred (as set out immediately above);
  - Settlement of litigation with the Manitoba Medical Association, which eliminated a \$27 million claim;
  - Expectation of offsetting revenue from the federal government to eliminate Agricultural Income Disaster Assistance (AIDA) expenditures of \$20 million; and,
  - A policy decision not to extend AIDA assistance to negative margins (\$8 million).

The chronology of events and their financial implications since the release of our November 17, 1999 report are noted in Exhibit 16.



## Exhibit 16 – Chronology of Events Since Interim Report

| <i>Event</i>                                                                       | <i>Financial Impact<br/>(in millions)</i> |
|------------------------------------------------------------------------------------|-------------------------------------------|
| Projected deficit November 17, 1999                                                | (\$262)                                   |
| Additional information received to December 31, 1999                               |                                           |
| Necessity of Health Information Network write-off became highly likely             | (33)                                      |
| Additional expenditures projected for the balance of the year                      | (26)                                      |
| Projected deficit based on information available at December 31, 1999              | (321)                                     |
| Expenditure changes identified during the sign-off process in January and February |                                           |
| Health                                                                             | 31                                        |
| Other, in aggregate                                                                | (18)                                      |
| Better Systems valuation provision                                                 | (10)                                      |
| Formal advice from Manitoba Finance on increased revenue – January 6, 2000         | 220                                       |
| Formal advice from Manitoba Finance on increased revenue – February 4, 2000        | (2)                                       |
| <b>Current deficit projection</b>                                                  | <b>(\$100)</b>                            |

The most significant changes since our interim report in November have been in revenue projections. Current expenditure projections are essentially consistent with our interim findings.

With respect to the issue of valuations on key Government investments, we note the following differences between the interim report and our final findings:

## Exhibit 17 – Valuation Adjustments since Interim Report

| <i>Investment</i>          | <i>Interim Report<sup>1</sup></i> | <i>Final Report<sup>2</sup></i> |
|----------------------------|-----------------------------------|---------------------------------|
| Faneuil                    | \$23 million                      | \$5.6 million                   |
| Health Information Network | \$33 million                      | \$33.0 million                  |
| Better Systems Initiative  | Not identified                    | \$9.7 million                   |

<sup>1</sup>This amount represents the estimated book value of assets identified in the interim report for valuation assessment.

<sup>2</sup>Amount of valuation provision included in final report projected deficit.

**Faneuil review:** As described in our interim report, Industry Trade and Mines has completed an analysis of its investment in Faneuil ISG. The department has concluded that the company's prospects for success point to the conclusion that a valuation provision is now not required against the Province's loans to the company. Nevertheless, \$5.6 million of the Province's investment is in the form of non-retractable preferred shares. PSAB's recommendations for such investments, that have no fixed term of repayment, require that a provision be taken against the carrying value of these shares.

**Health Information Network:** The Province's investment in HIN, as a result of its agreement with SmartHealth Inc., is expected to be approximately \$33 million at March 31, 2000. Our report **Information Technology Major Initiatives Review** recommended that this investment be written off. Accordingly, a provision for this full amount has been included in our projection. The ultimate cost for the conclusion of the agreement with SmartHealth Inc. will be a factor in determining the amount which will ultimately be provided for.

**Better Systems Initiative (BSI):** To date, the Province has invested in excess of \$60 million in its Better Systems initiative, which is a project to develop increased functionality for particular government departments. Based on an analysis of the costs incurred to date, the leaders of this

initiative believe strongly that \$9.7 million of the investment will have no future benefit. We have reviewed details of this and concur.

The provisions for HIN and BSI are consistent with the findings detailed in our report **Information Technology Major Initiatives Review**, made public February 2, 2000.

Other valuation considerations have related to projects including the Urban Shared Services Corporation's investment in food services facilities. At the current time, a provision has not been made, as the Government's plan for this investment has not been fully formulated. At the time that the corporation's business plan is finalized, there will be a need to assess the recoverability of the investment made to date.

In the following sections, we describe the significant revenue and expenditure variances from the 1999/2000 budget levels.

### 3.3 Significant Revenue Variances Identified for the 1999/2000 Year

Revenue variances for the current year are projected to be substantial. An overview is provided in Exhibit 18.

| Revenue Source     | 1999/2000 (in millions)   |                             |
|--------------------|---------------------------|-----------------------------|
|                    | Initial Revenue Estimates | Current Revenue Projections |
| Taxation           | \$3,569                   | \$3,630                     |
| Federal Government | 1,723                     | 1,911                       |
| Other              | 605                       | 616                         |
| <b>Total</b>       | <b>\$5,897</b>            | <b>\$6,157</b>              |

Exhibit 19 summarizes the nature of the revenue changes totalling \$260 million that have been identified. \$42 million of this total was projected in our November 17, 1999 interim report.

### Exhibit 19 – Significant Revenue Variance Explanations

| Variance Explanation                                                                                                                                                                                                                                                                                             | Variance Amount (in millions) |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------|
| <b>Corporate Income Tax</b> – corporate taxable income is higher than anticipated.                                                                                                                                                                                                                               | \$98.6                        |
| <b>Individual Income Tax</b> – anticipated taxable income levels were overestimated, in part due to distortions in prior year data caused by filing extensions granted to 1997 flood-affected taxpayers. Federal and provincial tax rate reductions have also had a significant impact.                          | (49.0)                        |
| <b>Mining Tax</b> – there is more mining activity than expected.                                                                                                                                                                                                                                                 | 6.8                           |
| <b>Equalization Payments</b> – the size of the equalization pool is now expected to be larger than first estimated by the federal government. Manitoba's share of the pool has increased because of its per capita revenue level in relation to other provinces and its improved relative population statistics. | 173.0                         |
| <b>Education Revenue from the Federal Government</b> – Millennium Scholarship Fund revenue.                                                                                                                                                                                                                      | 11.3                          |
| <b>Other, in total</b>                                                                                                                                                                                                                                                                                           | 19.0                          |
| <b>Total</b>                                                                                                                                                                                                                                                                                                     | <b>\$259.7</b>                |

Note: The \$260 million compares to the \$42 million identified in our November 17, 1999 interim report.

As indicated, the changes include both increases and decreases in projected revenues for 1999/2000. The decrease in individual income tax is nearly \$50 million. However, this is partially offset by increases in corporate income tax, mining tax, and education revenue from the federal government. The most dramatic increase, however, is in equalization payments of \$173 million. The total increase of \$260 million is significantly beyond the mid November 1999 expectations of Finance officials.

Income tax and federal equalization transfer revenues are subject to much more uncertainty than other revenue. For equalization, this uncertainty is because the transfers are dependent on economic and fiscal performance in several provinces. The data used to calculate equalization must be updated to reflect new information as it is available, and as it is revised for previous years when actual economic and fiscal results become clear. For example, equalization entitlements for the 1997/1998 and 1998/1999 years are still subject to revisions. Revenue ultimately depends on the last federal government estimates received during a fiscal year, despite the fact that entitlements are still subject to alteration in subsequent fiscal years.

1998 is the most recent year for which actual income tax assessment data is available, and decisions in the federal budget may affect income tax revenue for the 1999 year, which will affect the revenue for 1999/2000.

The most recent official federal government estimate for Manitoba's equalization entitlement for the current year is \$960 million. Manitoba Finance officials have revised this estimate upward based in part on updated income tax collection data, new demographic data and economic and fiscal data for the current year. A further increase with respect to prior year entitlements is also expected. The current estimate of \$1,143 million, which has been discussed by Manitoba Finance and federal officials, is expected to be substantially confirmed when the next set of official federal estimates for equalization are released later this month.

### ***3.4 Significant Expenditure Variances Identified for the 1999/2000 Year***

Understanding the variety of forces affecting specific expenditures has been a key consideration in reviewing the significant variances from the approved budget. As set out in the following exhibit, in some cases the variance has been provided for through Special Warrants, which are Orders-In-Council approving additional expenditures when the Legislature is not in session. A Special Warrant results in a revised 1999/2000 budget for the affected Department.

Exhibit 20 summarizes the significant expenditure variances from the approved budget projected for 1999/2000, by category.

## Exhibit 20 – Significant Expenditure Variances for 1999/2000

| Expenditure Area                | 1999/2000 (in millions)       |                                 |                  |                                            |
|---------------------------------|-------------------------------|---------------------------------|------------------|--------------------------------------------|
|                                 | Initial Expenditure Estimates | Current Expenditure Projections | Over-expenditure | Special Warrant Authorization <sup>1</sup> |
| Emergency expenditures          | \$23.5                        | \$138.0                         | \$114.5          | \$96.0                                     |
| Manitoba Health                 | 2,119.3                       | 2,277.9                         | 158.6            | -                                          |
| Manitoba Education and Training | 1,180.0                       | 1,198.3                         | 18.3             | -                                          |
| Manitoba Family Services        | 701.7                         | 710.1                           | 8.4              | -                                          |
| Manitoba Justice                | 208.0                         | 212.8                           | 4.8              | -                                          |
| Manitoba Agriculture            | 113.0                         | 120.6                           | 7.6              | -                                          |
| Valuation adjustments           | -                             | 48.3                            | 48.3             | -                                          |
| Other                           | 1,640.3                       | 1,660.7                         | 20.4             | 3.4                                        |
| <b>Totals</b>                   | <b>\$5,985.8</b>              | <b>\$6,366.7</b>                | <b>380.9</b>     | <b>\$99.4</b>                              |

<sup>1</sup> Authorization for overexpenditure

As confirmed by provincial officials through their sign-offs of our review findings, variances are primarily related to meeting obligations arising from existing government programs, as well as emergency expenditures approved throughout the year.

The information provided by Deputy Ministers indicates that the aggregate expenditure variances can be attributed as follows:

## Exhibit 21 – Significant Expenditure Variances for 1999/2000

| Nature of the variance                                                                                       | Amount (in millions) |
|--------------------------------------------------------------------------------------------------------------|----------------------|
| Expenditures authorized by Treasury Board                                                                    |                      |
| • Special Warrant funding is in place                                                                        | \$99.4               |
| • Special Warrant Funding is not yet in place                                                                | 13.1                 |
| Treasury Board has not authorized the expenditure but it:                                                    |                      |
| • is required by statute or some other authority such as a contract between the Government and another party | 107.6                |
| • has been authorized within the department                                                                  | 17.4                 |
| • is required to maintain 1998/1999 service levels                                                           | 59.6                 |
| • is required to respond to increased program demand or volumes                                              | 0.5                  |
| • represents emergency expenditures, not yet approved                                                        | 19.0                 |
| Discretionary initiatives of the government                                                                  |                      |
| • Before September 30                                                                                        | 0.8                  |
| • After September 30                                                                                         | 13.3                 |
| Valuation adjustments to be recorded during 1999/2000                                                        |                      |
| • Health Information Network                                                                                 | 33.0                 |
| • Better Systems Initiative                                                                                  | 9.7                  |
| • Faneuil                                                                                                    | 5.6                  |
| Other                                                                                                        | 1.9                  |
| <b>Total</b>                                                                                                 | <b>\$380.9</b>       |

Details of the major variances are provided in Exhibit 22. More detailed descriptions of these variances, together with other less significant variances, are set out in Appendix G.



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## Exhibit 22 – Significant Expenditure Variance Explanations

| <i>Area of Expenditure</i>                                                                                                                                                                                                                                                                              | <i>Individual Variance (millions)</i> | <i>Departmental Total Variance (millions)</i> |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------|-----------------------------------------------|
| <b>Emergency Expenditures</b>                                                                                                                                                                                                                                                                           |                                       |                                               |
| • Forest fire suppression                                                                                                                                                                                                                                                                               | \$12.2                                |                                               |
| • Disaster Flood Assistance in southwestern Manitoba                                                                                                                                                                                                                                                    | 13.2                                  |                                               |
| • 1997 flood program – flood proofing                                                                                                                                                                                                                                                                   | 18.5                                  |                                               |
| • 1999 flood-related costs – compensation for unseeded rural farm land                                                                                                                                                                                                                                  | 70.0                                  |                                               |
| • Other                                                                                                                                                                                                                                                                                                 | 0.6                                   |                                               |
| <b>Total Emergency Variance</b>                                                                                                                                                                                                                                                                         |                                       | <b>\$114.5</b>                                |
| <b>Manitoba Health</b>                                                                                                                                                                                                                                                                                  |                                       |                                               |
| • Deficits of Regional Health Authorities to be funded by Manitoba Health                                                                                                                                                                                                                               | \$52.5                                |                                               |
| • Impact of wage settlements with the Manitoba Nurses Union, Canadian Union of Public Employees and other unions                                                                                                                                                                                        | 64.1                                  |                                               |
| • Impact of an arbitration award on medical payments to be made to physicians under the terms of the Manitoba Health agreement with the Manitoba Medical Association                                                                                                                                    | 27.9                                  |                                               |
| • Increased costs for Pharmacare for increased claims volumes and increased drug costs                                                                                                                                                                                                                  | 13.1                                  |                                               |
| • Required increase in the Province's contribution to the operations of Canadian Blood Services                                                                                                                                                                                                         | 7.4                                   |                                               |
| • New Government election promises re: "hallway medicine"                                                                                                                                                                                                                                               | 8.7                                   |                                               |
| • Other items                                                                                                                                                                                                                                                                                           | (15.1)                                |                                               |
| <b>Total Health Variance</b>                                                                                                                                                                                                                                                                            |                                       | <b>\$158.6</b>                                |
| <b>Manitoba Education and Training</b>                                                                                                                                                                                                                                                                  |                                       |                                               |
| • Additional costs that have been incurred as a result of unanticipated increases in adult education enrolment                                                                                                                                                                                          | \$11.6                                |                                               |
| • Unbudgeted expenditure that will be incurred related to disbursements from the Millennium Scholarship Fund. <i>However, this amount will be fully funded by the Federal Government and therefore an additional \$11.3 million of revenue has been included in the revenue forecast for 1999/2000.</i> | 11.3                                  |                                               |
| • Other items                                                                                                                                                                                                                                                                                           | (4.6)                                 |                                               |
| <b>Total Education and Training Variance</b>                                                                                                                                                                                                                                                            |                                       | <b>\$18.3</b>                                 |
| <b>Manitoba Family Services</b>                                                                                                                                                                                                                                                                         |                                       |                                               |
| • Funding the 1999/2000 operating deficit of Winnipeg Child & Family Services                                                                                                                                                                                                                           | \$8.0                                 |                                               |
| • Other                                                                                                                                                                                                                                                                                                 | 0.4                                   |                                               |
| <b>Total Family Services Variance</b>                                                                                                                                                                                                                                                                   |                                       | <b>\$8.4</b>                                  |



## Exhibit 22 – Significant Expenditure Variance Explanations

| <i>Area of Expenditure</i>                                                                                                                                                                                                                                                                              | <i>Individual<br/>Variance<br/>(millions)</i> | <i>Departmental<br/>Total Variance<br/>(millions)</i> |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------|-------------------------------------------------------|
| <b>Emergency Expenditures</b>                                                                                                                                                                                                                                                                           |                                               |                                                       |
| • Forest fire suppression                                                                                                                                                                                                                                                                               | \$12.2                                        |                                                       |
| • Disaster Flood Assistance in southwestern Manitoba                                                                                                                                                                                                                                                    | 13.2                                          |                                                       |
| • 1997 flood program – flood proofing                                                                                                                                                                                                                                                                   | 18.5                                          |                                                       |
| • 1999 flood-related costs – compensation for unseeded rural farm land                                                                                                                                                                                                                                  | 70.0                                          |                                                       |
| • Other                                                                                                                                                                                                                                                                                                 | 0.6                                           |                                                       |
| <b>Total Emergency Variance</b>                                                                                                                                                                                                                                                                         |                                               | <b>\$114.5</b>                                        |
| <b>Manitoba Health</b>                                                                                                                                                                                                                                                                                  |                                               |                                                       |
| • Deficits of Regional Health Authorities to be funded by Manitoba Health                                                                                                                                                                                                                               | \$52.5                                        |                                                       |
| • Impact of wage settlements with the Manitoba Nurses Union, Canadian Union of Public Employees and other unions                                                                                                                                                                                        | 64.1                                          |                                                       |
| • Impact of an arbitration award on medical payments to be made to physicians under the terms of the Manitoba Health agreement with the Manitoba Medical Association                                                                                                                                    | 27.9                                          |                                                       |
| • Increased costs for Pharmacare for increased claims volumes and increased drug costs                                                                                                                                                                                                                  | 13.1                                          |                                                       |
| • Required increase in the Province's contribution to the operations of Canadian Blood Services                                                                                                                                                                                                         | 7.4                                           |                                                       |
| • New Government election promises re: "hallway medicine"                                                                                                                                                                                                                                               | 8.7                                           |                                                       |
| • Other items                                                                                                                                                                                                                                                                                           | (15.1)                                        |                                                       |
| <b>Total Health Variance</b>                                                                                                                                                                                                                                                                            |                                               | <b>\$158.6</b>                                        |
| <b>Manitoba Education and Training</b>                                                                                                                                                                                                                                                                  |                                               |                                                       |
| • Additional costs that have been incurred as a result of unanticipated increases in adult education enrolment                                                                                                                                                                                          | \$11.6                                        |                                                       |
| • Unbudgeted expenditure that will be incurred related to disbursements from the Millennium Scholarship Fund. <i>However, this amount will be fully funded by the Federal Government and therefore an additional \$11.3 million of revenue has been included in the revenue forecast for 1999/2000.</i> | 11.3                                          |                                                       |
| • Other items                                                                                                                                                                                                                                                                                           | (4.6)                                         |                                                       |
| <b>Total Education and Training Variance</b>                                                                                                                                                                                                                                                            |                                               | <b>\$18.3</b>                                         |
| <b>Manitoba Family Services</b>                                                                                                                                                                                                                                                                         |                                               |                                                       |
| • Funding the 1999/2000 operating deficit of Winnipeg Child & Family Services                                                                                                                                                                                                                           | \$8.0                                         |                                                       |
| • Other                                                                                                                                                                                                                                                                                                 | 0.4                                           |                                                       |
| <b>Total Family Services Variance</b>                                                                                                                                                                                                                                                                   |                                               | <b>\$8.4</b>                                          |



| <i>Area of Expenditure</i>                                                                                                           | <i>Individual<br/>Variance<br/>(millions)</i> | <i>Departmental<br/>Total Variance<br/>(millions)</i> |
|--------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------|-------------------------------------------------------|
| <b>Manitoba Justice</b>                                                                                                              |                                               |                                                       |
| • Increased correctional staff                                                                                                       | \$4.1                                         |                                                       |
| • Increased Courts costs                                                                                                             | 0.8                                           |                                                       |
| • Other items                                                                                                                        | (0.1)                                         |                                                       |
| <b>Total Justice Variance</b>                                                                                                        |                                               | <b>\$4.8</b>                                          |
| <b>Manitoba Agriculture</b>                                                                                                          |                                               |                                                       |
| • Excess of actual 1998 AIDA (Agricultural Income Disaster Assistance) claims by producers over the initial estimate of \$12 million | \$9.0                                         |                                                       |
| • Other                                                                                                                              | (1.4)                                         |                                                       |
| <b>Total Agriculture Variance</b>                                                                                                    |                                               | <b>\$7.6</b>                                          |
| <b>Valuation adjustments (See Exhibit 17 for details)</b>                                                                            |                                               |                                                       |
| • Health Information Network                                                                                                         | \$33.0                                        |                                                       |
| • Better Systems Initiative                                                                                                          | 9.7                                           |                                                       |
| • Investment in Faneuil                                                                                                              | 5.6                                           |                                                       |
| <b>Total Valuation Adjustments</b>                                                                                                   |                                               | <b>\$48.3</b>                                         |

#### 4. FINANCIAL PRESSURES ON THE OPERATING FUND FOR 2000/2001 AND 2001/2002

The current year will clearly have an impact on the coming two fiscal years. The established revenue and expenditure patterns indicate financial pressures facing the Government on a number of fronts.

As part of the review process, we gathered information from each department's senior officials on required expenditure levels for future years, together with the most current estimates of future revenue levels. As part of the sign-off process, officials verified that this information fairly represented current expectations of requirements to continue existing programs. *We emphasize that this information was provided to us before it was included in the 2000/2001 estimates preparation process. Consequently, the information is preliminary and has not been subject to debate, testing or scrutiny from outside the respective departments (e.g., final Treasury Board examination and approval in the process of developing the Government's 2000/2001 budget).*

The aggregation of this information provides the following overview of what departmental officials indicate will be required and the basis for their assumptions. In addition to the departmental estimates, the projected expenditures noted in the exhibit include enabling and other appropriation estimates at amounts equal to 1999/2000 levels, except for the removal of costs related to the PanAm Games, the Millennium Fund, and cost sharing agreements that are expiring in 1999/2000.



| <i>Area of Expenditure</i>                                                                                                           | <i>Individual<br/>Variance<br/>(millions)</i> | <i>Departmental<br/>Total Variance<br/>(millions)</i> |
|--------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------|-------------------------------------------------------|
| <b>Manitoba Justice</b>                                                                                                              |                                               |                                                       |
| • Increased correctional staff                                                                                                       | \$4.1                                         |                                                       |
| • Increased Courts costs                                                                                                             | 0.8                                           |                                                       |
| • Other items                                                                                                                        | (0.1)                                         |                                                       |
| <b>Total Justice Variance</b>                                                                                                        |                                               | <b>\$4.8</b>                                          |
| <b>Manitoba Agriculture</b>                                                                                                          |                                               |                                                       |
| • Excess of actual 1998 AIDA (Agricultural Income Disaster Assistance) claims by producers over the initial estimate of \$12 million | \$9.0                                         |                                                       |
| • Other                                                                                                                              | (1.4)                                         |                                                       |
| <b>Total Agriculture Variance</b>                                                                                                    |                                               | <b>\$7.6</b>                                          |
| <b>Valuation adjustments (See Exhibit 17 for details)</b>                                                                            |                                               |                                                       |
| • Health Information Network                                                                                                         | \$33.0                                        |                                                       |
| • Better Systems Initiative                                                                                                          | 9.7                                           |                                                       |
| • Investment in Fancuil                                                                                                              | 5.6                                           |                                                       |
| <b>Total Valuation Adjustments</b>                                                                                                   |                                               | <b>\$48.3</b>                                         |

#### 4. FINANCIAL PRESSURES ON THE OPERATING FUND FOR 2000/2001 AND 2001/2002

The current year will clearly have an impact on the coming two fiscal years. The established revenue and expenditure patterns indicate financial pressures facing the Government on a number of fronts.

As part of the review process, we gathered information from each department's senior officials on required expenditure levels for future years, together with the most current estimates of future revenue levels. As part of the sign-off process, officials verified that this information fairly represented current expectations of requirements to continue existing programs. *We emphasize that this information was provided to us before it was included in the 2000/2001 estimates preparation process. Consequently, the information is preliminary and has not been subject to debate, testing or scrutiny from outside the respective departments (e.g., final Treasury Board examination and approval in the process of developing the Government's 2000/2001 budget).*

The aggregation of this information provides the following overview of what departmental officials indicate will be required and the basis for their assumptions. In addition to the departmental estimates, the projected expenditures noted in the exhibit include enabling and other appropriation estimates at amounts equal to 1999/2000 levels, except for the removal of costs related to the PanAm Games, the Millennium Fund, and cost sharing agreements that are expiring in 1999/2000.

## Exhibit 23 – Financial Pressure Overview for 2001/2002

| <i>Operating Fund</i>                    |  | <i>Projected Impact<br/>(in millions)</i> |
|------------------------------------------|--|-------------------------------------------|
|                                          |  | <i>2000/2001</i>                          |
| <b>Revenues</b>                          |  |                                           |
| Taxation                                 |  | \$3,865                                   |
| Other                                    |  | 606                                       |
| Federal Government                       |  | 1,742                                     |
|                                          |  | 6,213                                     |
| <b>Expenditures</b>                      |  | 6,585                                     |
| <b>Required Debt Retirement Payments</b> |  | 96                                        |
|                                          |  | 6,681                                     |
| <b>Projected Impact</b>                  |  | <b>(\$468)</b>                            |

Revenues have been projected based on departmental estimates of what they consider to be reasonable revenue levels. These revenues do not include any transfer from the Fiscal Stabilization Fund.

The forecast for income tax and federal transfer revenue for 2000/2001 is subject to considerably more uncertainty at this point. The federal government has provided first estimates of advance payments on account for income taxes to be paid for the 2000 tax year. However, the first estimate for equalization for 2000/2001 has not yet been provided. Manitoba Finance estimates are based on the most recent demographic, economic and fiscal data available. Federal and provincial budgets may have a substantial impact on these estimates.

The significant pressures in key departments that drive the expenditure increases are set out in Exhibit 24.

## Exhibit 24 – Financial Pressure in Key Departments for 2000/2001

| <i>Entity</i>   | <i>Area of Financial Pressure</i>                                                                                                                                                                                                      | <i>Potential Impact on 2000/2001<br/>Over Projected 1999/2000<br/>Results (in millions)</i> |
|-----------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------|
| Health          | Anticipated additional funding requirements for: <ul style="list-style-type: none"> <li>• Regional Health Authorities</li> <li>• Pharmacare</li> <li>• Medical practitioners</li> </ul>                                                | \$137                                                                                       |
| Education       | Anticipated additional funding requirements for: <ul style="list-style-type: none"> <li>• Commitment to public school funding</li> <li>• Commitment to reduce tuition fees</li> <li>• Commitment to grow college enrollment</li> </ul> | 98                                                                                          |
| Justice         | Anticipated additional funding requirements for all expenditure areas                                                                                                                                                                  | 35                                                                                          |
| Family Services | Anticipated additional funding requirements for all expenditure areas                                                                                                                                                                  | 38                                                                                          |
| Others          | All other government departments, net                                                                                                                                                                                                  | 25                                                                                          |
| <b>Totals</b>   |                                                                                                                                                                                                                                        | <b>\$333</b>                                                                                |

Departments have also indicated that these anticipated expenditure increases will flow over to the next year (2001/2002) as part of the base expenditures of Government. Further pressures for 2001/2002 will become more acute if revenue and expenditure growth patterns hold.

On the other hand, revenue estimates supplied by individual departments and Manitoba Finance (not including any transfers from the Fiscal Stabilization Fund) are estimated to increase only 0.9% over the projected 1999/2000 levels. However, when the future expenditure pressures are combined with the fact that many of the 1999/2000 overexpenditures become a part of the ongoing "base expenditures" of departments, expenditure levels are expected to rise by more than 3%.

Therefore, the structural challenge identified in 1998/1999 and 1999/2000 is also apparent when looking at the 2000/2001 potential situation. While some of the identified expenditure increases may be found, on further analysis, to be unjustified, the significance is in the overall pattern. The clear implication is that stronger expenditure control will be essential if a deficit is to be avoided.

### 5. ISSUES THAT MAY AFFECT FUTURE OPERATIONS OF DEPARTMENTS

Departmental officials identified quite a number of areas where future operations could be affected by existing issues and circumstances. To summarize these comments, they typically fell into one of the following categories:

- The impact of the item could be in the next two fiscal years; however, the amount is currently very difficult to estimate.

- Agreements that govern some particular aspects of the department's activities and/or expenditures will expire shortly – for example, cost-sharing agreements with the federal government and infrastructure agreements with the City of Winnipeg and the federal government. The ability to renew, renegotiate or discontinue such agreements will have an impact on future cash outflows.
- Issues that were identified as having a direct impact on forecasted expenditures for 2000/2001 and 2001/2002 will continue beyond that time frame – in some cases becoming more pronounced as time moves on.
- With the extent of current and ongoing investments in new technology, the Government will need to take actions as required (including additional expenditures) to ensure that it gets value from the new systems. This issue is described more fully in our separate report **Information Technology Major Initiatives Review**.
- Pressures that are apparent are particularly strong in the area of infrastructure programs. Relevant Departments have referred to unacceptably high levels of “deferred maintenance” or “infrastructure deficits” that will be subject to discussion in upcoming budget deliberations.

With respect to this last area of pressure, Exhibit 25 highlights information provided by departments on the infrastructure issue.

## Exhibit 25 – Financial Pressure Related to Infrastructure

| Organization                        | Description                                                                                                                                                                                   | Estimate, if available                                                                                                                                                                         |
|-------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Public Schools Finance Board        | Identified needs include repairs for aging buildings, technology infrastructure development, and new facilities. 352 Manitoba schools were built before 1960.                                 | \$93 million of roof repair, mechanical system repairs and access modifications have been identified. An additional \$50 million of school replacement and upgrading costs are also projected. |
| Council on Post-Secondary Education | The universities have a list of deferred maintenance. Similar issues exist for the college facilities owned by Government Services.                                                           | \$200 million in projects have been identified.                                                                                                                                                |
| Government Services                 | Existing repair and maintenance budget is inadequate.                                                                                                                                         | \$4 to 5 million more per year to keep up.                                                                                                                                                     |
| Highways                            | Maintenance fleet is very old.<br><br>Repair and maintenance funding for roads is inadequate.<br><br>Rehabilitation of roads is required.                                                     | Replacement cost approximately \$100 million.<br><br>Additional \$17 million per year to keep up.<br><br>Additional \$60 million per year.                                                     |
| Health                              | Capital needs are significant.<br><br>Equipment.                                                                                                                                              | Initial 2000/2001 capital request is for over \$260 million; which is about double what has been done in each of the last several years.<br><br>Not quantified.                                |
| Housing                             | Modernization and improvement of public housing stock.                                                                                                                                        | About \$88 million to be spent over 10 years. Only \$20 million of funding is now in place.                                                                                                    |
| Intergovernmental Affairs           | New agreements that may be signed – successor to Winnipeg Development Agreement; a new Canada/Manitoba Infrastructure Agreement; other partnership/cost sharing agreements are also possible. | Not quantified.                                                                                                                                                                                |
| Manitoba Water Services             | Infrastructure needs for Water and Sewer in Rural Manitoba.                                                                                                                                   | \$400 million of possible projects now exist.                                                                                                                                                  |

A comprehensive listing of the issues identified by the departments as potentially affecting future operations is set out in Appendix H. These will necessarily be considered by Government in its future budgetary deliberations. We urge readers to carefully examine this information in order to fully appreciate the fiscal position of the Province. The extent to which these matters will significantly affect future financial planning and management will need to be assessed and addressed in the context of the new Government's financial planning process.

An understanding of the current health of public sector infrastructure and program operations will be an important consideration in the planning and review process leading to budgetary decision-making. The central reality inherent in the information provided to us in the course of our review is a longer-term and structural challenge (i.e., a deficit) facing the Government as it



defines its spending priorities. The Government will need stronger budgeting and expenditure control processes to support its effective management of public finances. Our Phase II report will address this issue.

## 6. CROWN ORGANIZATIONS

We examined the following Crown organizations that receive significant funding from the Operating Fund:

- Child and Family Services Agencies (3)
- Communities Economic Development Fund
- Council on Post-Secondary Education
- Criminal Injuries Compensation Board
- Economic Innovation and Technology Council
- Government Information Systems Management Organization (Man) Inc.
- Health Information Services of Manitoba
- Legal Aid Services Society
- Manitoba Agriculture Credit Corporation
- Manitoba Cancer Treatment and Research Foundation
- Manitoba Crop Insurance Corporation
- Manitoba Development Corporation
- Manitoba Health Services Insurance Plan
- Manitoba Housing and Renewal Corporation
- Manitoba Trade and Investment Corporation
- Manitoba Water Services Board
- Public Schools Finance Board
- Special Operating Agencies' Financing Authority (oversees 17 SOAs)

Here are our findings.

### 6.1 Purpose and Funding of Crown Organizations

Certain of the Government's services are delivered through these Crown organizations that typically operate under the governance of a separate board of directors. Each respective board is charged with ensuring that the organization meets its service mandate within the framework of the budget established for the organization.

The budgets that are developed for each organization contain one or both of the following revenue sources:

- An operating grant may be provided by a provincial department to fund the operations of the organization.

- The organization may generate its own revenues from service it provides. For instance, several of the organizations whose principal purpose is to make investments earn significant interest revenue.

The most significant grants paid by departments to Crown organizations are to the Council on Post-Secondary Education, the Public Schools Finance Board, Child & Family Services Agencies, and the Health Services Insurance Fund.

Where the organizations must borrow money to finance investments, all long term borrowings are achieved through advances from the Province of Manitoba. As at March 31, 1999, advances of this nature amounted to approximately \$750 million, and were primarily for Manitoba Agricultural Credit Corporation and the Manitoba Housing and Renewal Corporation.

## 6.2 Significant 1999/2000 Crown Organization Operating Deficits/Surpluses

Departments have reported that several Crown organizations require funding over and above budgeted amounts for the 1999/2000 year. The funding for these requirements has already been included in the 1999/2000 deficit projection by being incorporated within departmental projections. A summary of defined supplementary requirements for Crown organizations is set out in Exhibit 26.

**Exhibit 26 – Crown Organization Additional Requirements for 1999/2000**

| <b>Crown Organization</b>                        | <b>Related Department</b>   | <b>Additional Requirement (in millions)</b> | <b>Explanation</b>                                                                                                                                                                                                                                                          |
|--------------------------------------------------|-----------------------------|---------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Public Schools Finance Board                     | Education & Training        | \$9.9                                       | Adult education enrollment in excess of initial estimates resulted in increased funding of about \$11 million, offset by various sundry savings.                                                                                                                            |
| Child & Family Services Agencies                 | Family Services and Housing | \$8.0                                       | Increased cost of maintaining service levels.                                                                                                                                                                                                                               |
| Health Services Insurance Fund                   | Health                      | \$151.2                                     | Increased Pharmacare costs (\$13.1), deficits of Regional Health Authorities (\$52.5), wage settlements with health care workers (\$64.1), increased physician compensation (\$27.9), new government election commitments (\$8.7) and various spending reductions (\$15.1). |
| Health Information Systems Management (Man) Inc. | Health                      | \$33.0                                      | Provision for a 100% valuation allowance on the corporation's investment in the Health Information Network.                                                                                                                                                                 |
| <b>Total</b>                                     |                             | <b>\$202.1</b>                              |                                                                                                                                                                                                                                                                             |

These additional requirements flow through to departments, and are therefore reflected in departmental indications of overexpenditures for 1999/2000. The magnitude of these items, though, highlights the degree to which the expenditure variances for 1999/2000 occur in organizations that are accountable to government departments rather than in the departments themselves.

### 6.3 Significant Crown Organization Cumulative Surpluses/Deficits

Several Crown organizations have sizable accumulated surpluses or deficits as a result of prior years' operations. The significant ones are as follows:

#### Exhibit 27 – Crown Organization Cumulative Results

| <i>Organization</i>                                  | <i>Accumulated<br/>Surplus (Deficit)<br/>(in millions)</i> | <i>Comments</i>                                                                                                                                             |
|------------------------------------------------------|------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Manitoba Agricultural Credit Corporation             | (\$17.8)                                                   | The corporation has incurred losses over the last several years that have been funded by advances from the Province.                                        |
| Manitoba Crop Insurance Corporation                  | \$195.0                                                    | This surplus is comprised entirely of specifically identified insurance reserves, to absorb future significant claims.                                      |
| Special Operating Agencies (SOA) Financing Authority | \$42.0                                                     | This surplus is the cumulative total across 17 Special Operating Agencies. Typically, these surpluses are invested in assets used in operation of the SOAs. |
| Manitoba Housing & Renewal Corporation               | (\$16.0)                                                   | Surpluses in each of the last two fiscal years have allowed this deficit to decrease.                                                                       |

### 6.4 Financial Pressures That May Affect Crown Organizations in Future Years

Provincial officials have indicated that these Crown organizations are facing significant expenditure pressures. In some cases, there is a need for increased funding in 1999/2000 because of immediate program demands. In other instances, the pressure is reflected in anticipated future costs to deal with facilities or equipment that have deteriorated due to constraints on repair and maintenance expenditures in prior years.

Since it is departments that will fund the organizations, the pressures for increased funding in 2000/2001 are, of course, reflected in departmental projections of expenditure requirements for that year. These pressures are described in Section 3.4 of this chapter. The most significant are in those entities providing education and health care services.

Factors that may affect the operations beyond 2000/2001 are set out in detail in Appendix H. The more significant of these pressures are highlighted in Exhibit 28.

## Exhibit 28 – Financial Pressures Affecting Crown Organizations

| <i>Crown Organization</i>                       | <i>Factors Affecting Future Operations</i>                                                                                                                                                                                                                                                                                                                                                                                                                                                     |
|-------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Manitoba Crop Insurance Corporation             | The end to certain federal agricultural safety net programs in future years will bring pressure to increase funding to this entity.                                                                                                                                                                                                                                                                                                                                                            |
| Council on Post Secondary Education             | The following factors all interact in a very dynamic way to bring pressures for increased expenditures in the future: <ul style="list-style-type: none"> <li>• Election promises of the new government related to tuition increases and increased enrollment in colleges.</li> <li>• Escalating operating costs due to collective bargaining agreements and ever increasing technology costs.</li> <li>• Increased maintenance and capital funding to address deferred maintenance.</li> </ul> |
| Public Schools Finance Board (PSFB)             | The following factors create pressure on the PSFB: <ul style="list-style-type: none"> <li>• The age of many Manitoba school buildings is 35 to 40 years, resulting in substantial repair and maintenance requirements.</li> <li>• Escalating operating costs due to collective bargaining agreements and ever increasing technology costs.</li> <li>• Significant requests for capital funding for new or expanded school facilities.</li> </ul>                                               |
| Manitoba Housing and Renewal Corporation (MHRC) | The following factors create pressure on MHRC: <ul style="list-style-type: none"> <li>• Substantial modernization and improvement expenditures are required for deteriorating buildings.</li> <li>• The terms of the Social Housing Agreement recently signed with Canada Mortgage &amp; Housing Corporation will provide MHRC with some additional flexibility in funding certain housing programs.</li> </ul>                                                                                |
| Health Services Insurance Fund (HSIF)           | The following factors create pressure on the HSIF: <ul style="list-style-type: none"> <li>• Information technology needs of Regional Health Authorities, especially the Winnipeg Regional Health Care Authority, will require significant expenditures.</li> <li>• Continued anticipated increases in medical compensation, drug costs, health care worker wages and other hospital operating costs suggest the need for continued annual funding increases to health care.</li> </ul>         |
| Manitoba Water Services Board                   | The value of required water and sewer projects currently identified in rural Manitoba far exceeds the funding available for these types of projects over the next five years.                                                                                                                                                                                                                                                                                                                  |

## E. GOVERNMENT ENTERPRISES

The fourth major component of the Province's financial situation consists of the five Government Enterprises: Manitoba Hydro, Manitoba Public Insurance, Manitoba Lotteries Corporation, Manitoba Liquor Control Commission, and the Manitoba Workers Compensation Board.

These enterprises have different fiscal year ends. Manitoba Hydro, Manitoba Lotteries Corporation and Manitoba Liquor Control Commission all end March 31. Manitoba Public Insurance has a February 28 year end, and the Workers Compensation Board has a December 31 year end. Accordingly, in the exhibits that follow, a reference to the "1997/98 year" will mean the year ended March 31, 1998, February 1998 or December 1997, depending on the individual Government Enterprise.

## 1. GOVERNMENT ENTERPRISES REVENUE SUMMARY

The magnitude of the Government Enterprises is indicated by their total revenue, as illustrated in Exhibit 29.

### Exhibit 29 – Government Enterprise Revenue

| Enterprise                          | (in millions)               |                             |                                |
|-------------------------------------|-----------------------------|-----------------------------|--------------------------------|
|                                     | 1997/1998 Revenue<br>Actual | 1998/1999 Revenue<br>Actual | 1999/2000 Revenue<br>Projected |
| Manitoba Hydro                      | \$1,041.1                   | \$1,081.6                   | \$1,124.2                      |
| Manitoba Public Insurance           | 473.8                       | 509.2                       | 514.1                          |
| Manitoba Lotteries Corporation      | 361.0                       | 373.0                       | 352.4                          |
| Manitoba Liquor Control Commission  | 366.3                       | 379.9                       | 391.0                          |
| Manitoba Workers Compensation Board | 209.3                       | 216.6                       | 185.1                          |
| <b>Totals</b>                       | <b>\$2,451.5</b>            | <b>\$2,560.3</b>            | <b>\$2,566.8</b>               |

The \$2.6 billion of Government Enterprise revenue is significant when comparing it to the Government's \$6 billion total Operating Fund revenue. Comparing the two, the Government Enterprises revenue is 42% of the size of the Operating Fund revenue. This underlines our view that government financial reporting must include these entities to be complete.

## 2. GOVERNMENT ENTERPRISES PROFITABILITY SUMMARY

The annual profitability of the Government Enterprises is indicated by their net surplus or deficit, as illustrated in Exhibit 30.

### Exhibit 30 – Government Enterprise Profitability

| Enterprise                          | (in millions)                                      |                                                    |                                                        |
|-------------------------------------|----------------------------------------------------|----------------------------------------------------|--------------------------------------------------------|
|                                     | 1997/1998<br>Financial Result<br>Surplus (Deficit) | 1998/1999<br>Financial Result<br>Surplus (Deficit) | 1999/2000<br>Financial Projection<br>Surplus (Deficit) |
| Manitoba Hydro                      | \$110.5                                            | \$100.1                                            | \$141.7                                                |
| Manitoba Public Insurance           | 76.2                                               | 38.3                                               | 61.2                                                   |
| Manitoba Lotteries Corporation      | 220.0                                              | 225.0                                              | 225.0                                                  |
| Manitoba Liquor Control Commission  | 149.4                                              | 151.5                                              | 153.0                                                  |
| Manitoba Workers Compensation Board | 23.9                                               | 14.7                                               | 4.5                                                    |
| <b>Totals</b>                       | <b>\$580.0</b>                                     | <b>\$529.6</b>                                     | <b>\$585.4</b>                                         |

Of these earnings, approximately \$375 million annually from the Lotteries Corporation and Liquor Control Commission goes directly to the Government. The WCB's earnings are moved into its own reserves. Manitoba Hydro uses its earnings to finance capital infrastructure. MPI's is used for reserve growth and surplus.



The 1999/2000 results for WCB are adversely affected by legislation that introduced a new category of liability coverage.

While it appears that the enterprises have some more capacity to contribute to government revenues and we understand that Crown Corporations Council has been asked by the Government to consider this possibility, the Government will have to give due consideration to the specific needs and circumstances of each enterprise. For example, the Manitoba Liquor Control Commission's ability to make revenue payments may be adversely affected by the impact of sales of private wine stores to licensees (restaurants, lounges, etc.).

### 3. GOVERNMENT ENTERPRISES CUMULATIVE SURPLUS/EQUITY POSITION

As a result of their profitable operations, the Government Enterprises have all accumulated substantial surpluses or retained earnings. A summary of their individual and cumulative positions as at the conclusion of the 1999/2000 year is provided in Exhibit 31.

**Exhibit 31 – Government Enterprise Cumulative Positions**

| Enterprise                            | Nature of Surplus at<br>1998/99 Year End<br>(in millions) |                |                | Total Surplus as a<br>Percent Of |                    |
|---------------------------------------|-----------------------------------------------------------|----------------|----------------|----------------------------------|--------------------|
|                                       | Restricted                                                | Unrestricted   | Total          | Year End<br>Assets               | Annual<br>Revenues |
| Manitoba Lotteries Corporation        | nil                                                       | \$10.0         | \$10.0         | *                                | *                  |
| Manitoba Liquor Control Commission    | nil                                                       | nil            | nil            | *                                | *                  |
| Manitoba Public Insurance Corporation | 64.3**                                                    | 76.0           | 140.3          | 11.8%                            | 27.6%              |
| Manitoba Workers Compensation Board   | 68.6**                                                    | -              | 68.6           | 9.4%                             | 31.7%              |
| Manitoba Hydro                        | -                                                         | 665.9          | 665.9          | 8.5%                             | 61.6%              |
| <b>Totals</b>                         | <b>\$132.9</b>                                            | <b>\$751.9</b> | <b>\$884.8</b> |                                  |                    |

\* These calculations are not relevant as all or virtually all of the corporations' surplus is transferred annually to the Operating Fund of the Province of Manitoba.

\*\* These restricted funds have been established by the Boards of the corporations. In the case of the reserves of MPIC, the level of the reserve has been approved by the Public Utilities Board. In the case of WCB, the restricted reserves are short of the \$96 million target which has been set using formulae established by the Office of the Superintendent of Financial Institutions of Canada for minimum continuing capital and surplus requirements.

While surpluses are substantial, some are necessarily set aside as appropriate reserves to preserve financial stability. In Hydro's case, the surplus assists in financing investment in capital projects.

#### 4. GOVERNMENT ENTERPRISE CONTRIBUTION TO CONSOLIDATED FUND REVENUE

Government Enterprises that contribute to Consolidated Fund revenue are currently limited to the Manitoba Lotteries Corporation and Manitoba Liquor Control Commission. The contributions historically and for the current year are as noted in Exhibit 32.

**Exhibit 32 – Government Enterprise Contributions to the Consolidated Fund**

| <i>Enterprise</i>                  | <i>(in millions)</i>                                   |                                                        |                                                                  |
|------------------------------------|--------------------------------------------------------|--------------------------------------------------------|------------------------------------------------------------------|
|                                    | <i>1997/1998<br/>Transfer to Consolidated<br/>Fund</i> | <i>1998/1999<br/>Transfer to Consolidated<br/>Fund</i> | <i>1999/2000<br/>Projected Transfer to<br/>Consolidated Fund</i> |
| Manitoba Lotteries Corporation     | \$220.3                                                | \$225.1                                                | \$225.0                                                          |
| Manitoba Liquor Control Commission | 149.4                                                  | 151.5                                                  | 153.0                                                            |
| <b>Totals</b>                      | <b>\$369.7</b>                                         | <b>\$376.6</b>                                         | <b>\$378.0</b>                                                   |

The other three Government Enterprises do not make direct contributions to Consolidated Fund revenue, and legislative amendments may be required to allow for such an approach. However, payments by these enterprises have indirectly contributed to certain departmental revenues through various taxation and service arrangements, such as debt guarantee fees, capital tax, payroll tax and water power rental agreements. In the case of Manitoba Hydro, these amounts exceed \$100 million annually.

#### 5. FACTORS AFFECTING FUTURE OPERATIONS OF GOVERNMENT ENTERPRISES

Each of the Government Enterprises has projected its profitability for the current fiscal year as well as each of the next two years. In addition, each entity has identified major factors expected to affect its future operations. This information is set out in detail in Appendix I.

#### 6. RELEVANT COMPARISONS WITH OTHER JURISDICTIONS

In considering issues related to Government Enterprises in Manitoba, the Government can look to approaches taken in other jurisdictions as an indication of what might be possible or appropriate. Generally, other governments have liquor and gaming revenue transferred directly to government revenue, as is the case in Manitoba. However, the issue of particular interest is the provision of dividends from Government Enterprises to the Operating Fund. In a number of provinces, for example, Crown utilities provide such dividends.

#### 7. OVERALL TRENDS RELATED TO GOVERNMENT ENTERPRISES

The overall trends related to Government Enterprises can be characterized according to two groupings.

## **7.1 Sustainable Revenue Sources**

Manitoba's Government Enterprises have been profitable over the past few years. In the case of the Lotteries Corporation and the Liquor Control Commission, these profits have significantly augmented the government's general revenues in the Operating Fund, contributing about \$370 to \$380 million per year. This contribution, as a percentage of the Province's total revenues, declined from 6.4% in 1997/98 to about 6.1% in the current year.

Both Manitoba Lotteries Corporation and the Manitoba Liquor Control Commission project profits at approximately these same levels into the next several years, indicating the likelihood of a sustainable revenue source. However, the projections do not include any expectation of substantial growth in income for the two enterprises, nor do they include provision for any potential revenue reduction as a result of the anticipated establishment of First Nations casinos. Accordingly, it is apparent that the Operating Fund revenue generated by these particular enterprises will not keep pace with the rate of projected growth in provincial expenditures.

## **7.2 The Potential for More Direct Contributions**

Manitoba Hydro, Manitoba Public Insurance, and the Workers Compensation Board all face distinct operational challenges. In the case of the two insurance service providers, the dynamic relationships between reserve levels, premium/rate levels and loss and/or claim experience must be prudently managed. Almost two thirds of the retained earnings of these entities represent reserves against future operating risks. We note that the levels of these reserves are considered to be reasonable based on independent third party standards.

In the case of Manitoba Hydro, profitability has been and is expected to continue to be strong. However, the corporation will need to deal with (a) ongoing capital investments in service capacity, (b) management of potential costs related to the Northern Flood Agreement, and (c) ongoing discussions with municipalities that would like to impose taxes on the corporation. All of these factors will place limits on the use of future operating profits.

We understand that the Government is assessing options for having Government Enterprises (excluding the Workers Compensation Board) pay dividends to the Province's Operating Fund. This approach is based on a view that the Province should receive greater returns for its substantial investment in the enterprises. While it is apparent that there is some capacity for dividends to be paid, the Government will need to address a number of issues before acting. For example, legislative changes may be required to allow for such an approach. Also, prudence would be required to ensure that the ongoing profitable operation of the enterprises is not impaired.

An additional consideration would involve policy deliberations with respect to rate/premium levels. Manitoba taxpayers/consumers currently enjoy comparatively low rates for the services provided by these enterprises, and the interrelationship of these rate/premium levels and the capacity of the corporations to pay dividends must therefore be explored. In Chapter VI, we set out our views on the various facets of this issue. We note that even if, by way of illustration, half of MPI and Hydro profits were paid as dividends, the additional revenue to the Government

would be just over \$100 million. While quite significant, this amount would not by itself be sufficient to end the structural deficit facing the Government.

It is our understanding that both Manitoba Hydro and Manitoba Public Insurance have provided options to the Crown Corporations Council respecting potential additional revenue that could be transferred to general revenue. They merit further, careful review and consideration.

## F. THE UNFUNDED PENSION LIABILITY

The Government currently has an unfunded pension liability of approximately \$2.8 billion relating to its obligation for the future pension benefits or current and retired civil servants, teachers, and Members of the Legislative Assembly. The Government operates on a "pay as you go" basis, paying its portion of the pensions as they become due to individuals upon their retirement. In 1999/2000, the estimated cash cost of this approach is about \$116 million.

We note that this issue was highlighted in the August 8, 1988 **Summary Report – A Review of Government Accounting Policies and Financial Obligations to March 31, 1988** submitted by Stevenson Kellogg Ernst & Whinney to the Minister of Finance. At that time, the total unfunded liability was approximately \$1.17 billion and the annual cash cost of pensions paid out was \$37 million. This review noted:

*"The major problem is that since 1961 the Province has not paid its share of employees' pensions into the Pension Fund; nor has this liability been accounted for in the financial accounts.*

*These pensions are known and predictable future obligations of the government, just like any other liability. The cost is incurred when the pension is earned each year the individual is employed. By not recording the cost and obligation and then setting aside specific funds for pensions and investing them so that they earn a return, the government is in effect borrowing these funds. This burdens future rather than present governments and taxpayers with the unrecognized cost of the pensions. It also significantly increases the future cost of the pensions, which must then be paid by future taxpayers."*

Stevenson Kellogg Ernst & Whinney recommended that the Government begin accounting for public sector pensions on a current basis, and develop an action plan with clear targets for dealing with the funding problem. The firm concluded this would be *"the best course to both portray accurately the province's financial position and safeguard the security of future pension benefits"*. However, in the intervening 11 years, no action has been taken.

With respect to the current approach to dealing with pensions, the provision to fund payments to current retirees is \$116 million in 1999/2000. It is projected at \$119 million for 2000/2001 and \$126 million for 2001/2002. Looking forward, this cost is expected to continue to grow due to increased costs for current service retirees and interest growth in the liability. Continuing with the current approach will mean these costs will continue to grow for the foreseeable future. Action is required.



## G. CONCLUSIONS ON THE GOVERNMENT'S FINANCIAL POSITION

The conclusions from our assessment of the Government's general financial position are as follows:

- *The Balanced Budget, Debt Repayment and Taxpayer Protection and Consequential Amendments Act* sets the context for the financial situation, imposing a number of "rules of the road" related to balanced budgets, debt retirement, and referenda on major tax rate increases. These provisions fundamentally limit the Government's financial flexibility and should be modified to give greater scope for action while maintaining the obligation to reduce debt.
- The Fiscal Stabilization Fund will stand at a balance of \$253 million at the end of this fiscal year. The Government will need to determine how it will use this fiscal management tool to meet its commitment to balance its budgets in the future, recognizing that the amount remaining at the end of 1999/2000 will not be sufficient to balance the 2000/2001 situation given defined financial pressures.
- The Government is obligated to contribute to the Debt Retirement Fund, which has implications for both the current and future years.
- The Operating Fund deficit projection for 1999/2000 has improved over earlier projections, due almost entirely to a substantial increase in federal government transfers. However, the revenue and expenditure pattern of the previous two years, combined with apparent financial pressures for the next two years, point to a structural deficit. Plans to follow through on announced tax rate reductions exacerbate this situation.
- Crown organizations, which are entities funded from the Operating Fund but only indirectly controlled by the Government, are a source of significant financial pressures in the current and upcoming years. This reflects, in part, Government's insufficient means to control expenditures.
- Government Enterprises already provide considerable revenue to the Operating Fund, and they appear to have potential as a source of additional revenue. It is unlikely that the potential additional revenue from Government Enterprises would be sufficient to balance the budget. Nevertheless, consideration should be given to Government Enterprise dividends in the Government's multi-year fiscal framework.
- The unfunded pension liability is a continuing source of major concern and has significant future cost implications if the Government's approach to this situation does not change. It must be addressed soon.

The implications of the Government's overall financial situation are quite clear. The Fiscal Stabilization Fund, as a fiscal shock absorber, combined with the contemplated additional Government Enterprise revenue are together insufficient in magnitude to help the Government



resolve the structural deficit situation. This reality points to the need for the Government to consider two options. First, it must consider stronger financial planning and management measures in its expenditure program. Second, it must look at its revenue sources to determine where it might lever new or additional revenue. In order to achieve its balanced budget objectives, the Government will need to clearly define and consider these options before it makes choices, honestly assessing the feasibility of each.

### III. ANALYSIS OF THE FINANCIAL CONDITION OF THE PROVINCE

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In Chapter II, we discussed the fiscal position of the Province. Here we present our analysis of the underlying financial condition.

The Canadian Institute of Chartered Accountants (CICA) has published **Indicators of Government Financial Condition (1997)**. The CICA intended this approach to deal with the inadequacy of traditional audited financial statements in providing a complete picture of government's financial condition. Unless otherwise noted, graphs are based on GAAP financial results and other information supplied to us by the Provincial Auditor's office.

In assessing the implications of the 1999/2000 situation for future years, it is important to understand how the Government arrived at the current position. In this chapter, we assess the Province's financial position using this framework.

An overview of the CICA Indicators of Government Financial Condition is contained in Appendix J and we urge readers to examine it closely.

#### A. MEASURES OF SUSTAINABILITY – THE FIRST PRIORITY

Sustainability is the degree to which a government can maintain existing programs and meet existing creditor requirements without increasing the debt burden on the economy. Indicators of sustainability include the *annual surplus or deficit* and the *ratio of net debt to provincial Gross Domestic Product*. In an environment of steadily increasing health costs, this factor is paramount to successful financial management.

##### 1. ANNUAL SURPLUS OR DEFICIT

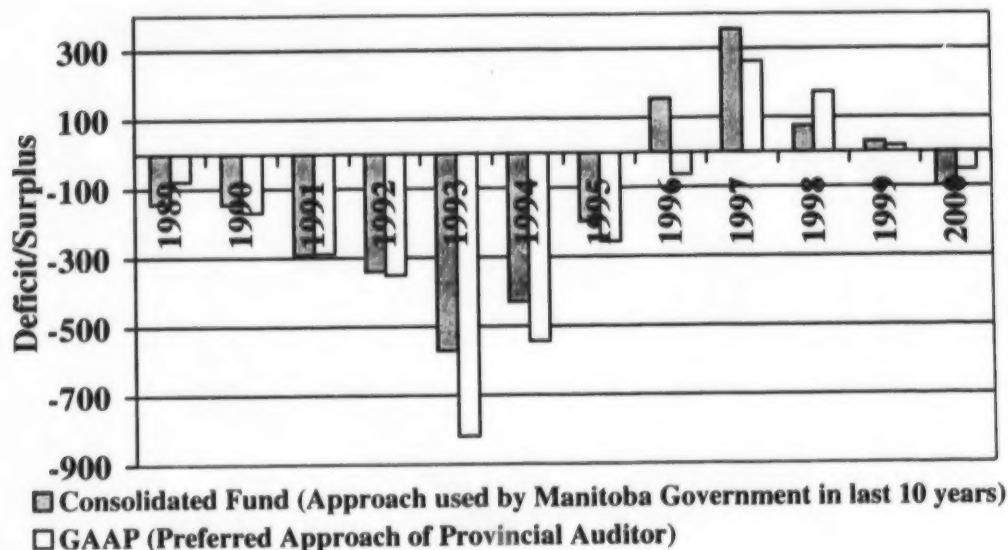
The annual surplus or deficit is an indicator of whether the Government is managing annual expenditures to levels supportable by the Province's revenues. In short, the level of actual annual revenues should define the acceptable level of expenditures.

##### *The GAAP Approach to Measuring the Surplus or Deficit*

The Manitoba Government historically has used the Operating Fund to measure its surplus or deficit on an annual basis. However, the Provincial Auditor has indicated that a more appropriate measure is the surplus or deficit of the consolidated government reporting entity, including all Government Enterprises and prepared using Generally Accepted Accounting Principles (GAAP). This is the "larger" government which includes Government Enterprises.

The following chart reflects the trends in both measures.

**Chart A-1 Annual Surplus or Deficit of the Manitoba Government Using Two Definitions of "Government"**



By either measure, the Province's financial picture has reflected more positive results in recent years than early in the 1990's. However, using GAAP, the actual surpluses have been smaller and the deficits larger than the Government reported to the public.

Applying Generally Accepted Accounting Principles, the 1999/2000 deficit is expected to be as noted in Exhibit 33. This calculation is consistent with the determination of the reported Volume 3 results in prior years.

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### Exhibit 33 – Projected GAAP Deficit for 1999/2000

| <b>GAAP Adjustments</b>                                | <b>1999/2000 Impact of Adjustment</b> |
|--------------------------------------------------------|---------------------------------------|
| Forecast deficit of Operating Fund                     | (\$100)                               |
| Eliminate effect of Fiscal Stabilization Fund transfer | (185)                                 |
| Eliminate effect of Debt Retirement Fund transfer      | 75                                    |
| Adjust pension expense to GAAP basis                   | (123)                                 |
| Manitoba Hydro, MPI and WCB net surplus                | 207                                   |
| Estimated aggregate net surplus of Crown Organizations | 50                                    |
| Other                                                  | 24                                    |
| <b>Projected GAAP Deficit</b>                          | <b>(\$52)</b>                         |

### A “Normalized” View of Financial Results

As described in Chapter II, the Operating Fund deficit for the current year is now projected to be \$100 to \$135 million. However, this projection is affected to a large degree by the non-recurring revenues and transfers from the Fiscal Stabilization Fund. Without the Fiscal Stabilization Fund, which represents one-time income earned in previous years, the deficit this year would be in the range of \$285 to \$320 million.

*Therefore, to more clearly understand the underlying nature of the Government's financial condition, we have completed an analysis of the past three fiscal years and the current year's projected results for the Province's Operating Fund. Using a “normalized” picture of each year's reported financial result, this eliminates the impact of non-recurring revenues, transfers from the Fiscal Stabilization Fund and non-recurring expenditures.*

This analysis, which is set out in Exhibit 34, also indicates a deteriorating surplus/deficit trend beginning in recent years. Further, it demonstrates that expenditures at the projected 1999/2000 levels are significantly greater than the anticipated continuing revenues. This gap poses a significant financial management challenge for the Government.



## Exhibit 34 – “Normalized” Revenue and Expenditures Using the Current Accounting Procedures

| (in millions)                                                                           | Year Ended March 31 |                |                |                   |
|-----------------------------------------------------------------------------------------|---------------------|----------------|----------------|-------------------|
|                                                                                         | 1997<br>Actual      | 1998<br>Actual | 1999<br>Actual | 2000<br>Projected |
| <b>Total Reported Revenues (including transfers from the Fiscal Stabilization Fund)</b> | \$5,499             | \$5,842        | \$6,067        | \$6,342           |
| Remove Internal Transfers and Non Recurring Items:                                      |                     |                |                |                   |
| Transfers from Fiscal Stabilization Fund                                                |                     | (100)          | (186)          | (185)             |
| Canada Health Transfer                                                                  |                     |                |                | (131)             |
| Prior Year Federal Adjustments in Excess of Expected Amount                             |                     |                | (110)          | (100)             |
| Emergency Expenditure and Flood Proofing Cost Recoveries from Federal Government        | (6)                 | (168)          | (28)           | (40)              |
| <b>“Normalized” Revenues</b>                                                            | <b>\$5,493</b>      | <b>\$5,574</b> | <b>\$5,743</b> | <b>\$5,886</b>    |
| <b>Total Disbursements</b>                                                              |                     |                |                |                   |
| Expenditures                                                                            | \$5,408             | \$5,691        | \$5,887        | \$6,367           |
| Debt Retirement Fund Payments                                                           |                     | 75             | 150            | 75                |
|                                                                                         | 5,408               | 5,766          | 6,037          | 6,442             |
| Remove Non Recurring Disbursements:                                                     |                     |                |                |                   |
| Extra Debt Repayment                                                                    |                     |                | (75)           |                   |
| Valuation Adjustment                                                                    |                     |                |                | (48)              |
| Emergency Expenditures and Flood Proofing Costs                                         |                     | (217)          | (98)           | (138)             |
| <b>“Normalized” Expenditures</b>                                                        | <b>\$5,408</b>      | <b>\$5,549</b> | <b>\$5,864</b> | <b>\$6,256</b>    |
| <b>“Normalized” Revenues Less “Normalized” Expenditures</b>                             | <b>\$85</b>         | <b>\$25</b>    | <b>(\$121)</b> | <b>(\$370)</b>    |
| Surplus/(Deficit) as Reported/Projected – Volume 1                                      | \$91                | \$76           | \$30           | (\$100)           |
| <b>Difference between “Normalized” and non-“Normalized”</b>                             | <b>\$6</b>          | <b>\$51</b>    | <b>\$151</b>   | <b>\$270</b>      |

The \$370 million excess of “Normalized” Expenditures over “Normalized” Revenues projected for the year ending March 31, 2000 is substantially above the projected deficit of \$100 million that results from using the existing accounting rules. This is due primarily to federal government transfers of \$231 million that cannot be expected to occur in subsequent years. In addition, a transfer from the Fiscal Stabilization Fund of \$185 million does **not** represent true third party revenue and is also not sustainable due to the limited sources of one-time revenue from 1989 to 1998 in the Fiscal Stabilization Fund. It is preferable for Manitobans to have the full, true and plain picture of their financial circumstances.

## 2. RATIO OF NET DEBT TO GROSS DOMESTIC PRODUCT (GDP)

The net debt to GDP ratio measures the level of debt that a government is carrying relative to the Province’s Gross Domestic Product (GDP). In calculating this and other ratios, we have used the definition of “net debt” set out by the CICA’s PSAB. Net debt represents the amount of the

**Exhibit 33 – Projected GAAP Deficit for 1999/2000**

| <b>GAAP Adjustments</b>                                | <b>1999/2000 Impact of Adjustment</b> |
|--------------------------------------------------------|---------------------------------------|
| Forecast deficit of Operating Fund                     | (\$100)                               |
| Eliminate effect of Fiscal Stabilization Fund transfer | (185)                                 |
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| Adjust pension expense to GAAP basis                   | (123)                                 |
| Manitoba Hydro, MPI and WCB net surplus                | 207                                   |
| Estimated aggregate net surplus of Crown Organizations | 50                                    |
| Other                                                  | 24                                    |
| <b>Projected GAAP Deficit</b>                          | <b>(\$52)</b>                         |

**A “Normalized” View of Financial Results**

As described in Chapter II, the Operating Fund deficit for the current year is now projected to be \$100 to \$135 million. However, this projection is affected to a large degree by the non-recurring revenues and transfers from the Fiscal Stabilization Fund. Without the Fiscal Stabilization Fund, which represents one-time income earned in previous years, the deficit this year would be in the range of \$285 to \$320 million.

*Therefore, to more clearly understand the underlying nature of the Government’s financial condition, we have completed an analysis of the past three fiscal years and the current year’s projected results for the Province’s Operating Fund. Using a “normalized” picture of each year’s reported financial result, this eliminates the impact of non-recurring revenues, transfers from the Fiscal Stabilization Fund and non-recurring expenditures.*

This analysis, which is set out in Exhibit 34, also indicates a deteriorating surplus/deficit trend beginning in recent years. Further, it demonstrates that expenditures at the projected 1999/2000 levels are significantly greater than the anticipated continuing revenues. This gap poses a significant financial management challenge for the Government.

### Exhibit 34 – “Normalized” Revenue and Expenditures Using the Current Accounting Procedures

| (in millions)                                                                           | Year Ended March 31 |                |                |                   |
|-----------------------------------------------------------------------------------------|---------------------|----------------|----------------|-------------------|
|                                                                                         | 1997<br>Actual      | 1998<br>Actual | 1999<br>Actual | 2000<br>Projected |
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|                                                                                         | 5,408               | 5,766          | 6,037          | 6,442             |
| Remove Non Recurring Disbursements:                                                     |                     |                |                |                   |
| Extra Debt Repayment                                                                    |                     |                | (75)           |                   |
| Valuation Adjustment                                                                    |                     |                |                | (48)              |
| Emergency Expenditures and Flood Proofing Costs                                         |                     | (217)          | (98)           | (138)             |
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| Surplus/(Deficit) as Reported/Projected – Volume 1                                      | \$91                | \$76           | \$30           | (\$100)           |
| <b>Difference between “Normalized” and non-“Normalized”</b>                             | <b>\$6</b>          | <b>\$51</b>    | <b>\$151</b>   | <b>\$270</b>      |

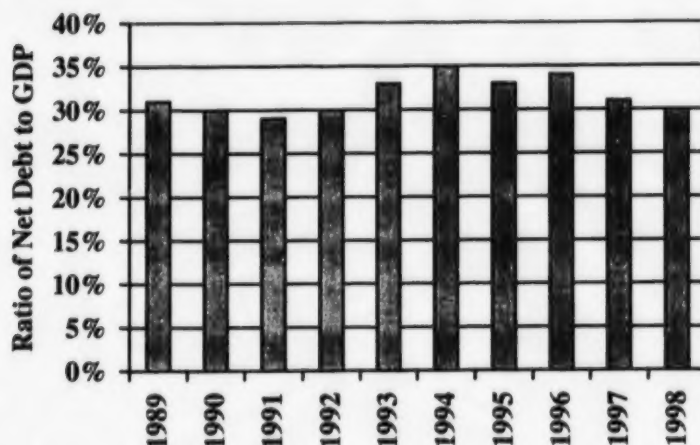
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## 2. RATIO OF NET DEBT TO GROSS DOMESTIC PRODUCT (GDP)

The net debt to GDP ratio measures the level of debt that a government is carrying relative to the Province’s Gross Domestic Product (GDP). In calculating this and other ratios, we have used the definition of “net debt” set out by the CICA’s PSAB. Net debt represents the amount of the

Province's deficit accumulated over time. It represents that portion of the Province's debt that is not invested in assets. The GDP is a measure of the size of the Province's economy. Consequently, an increasing ratio means that the Province's net debt is increasing faster than the size of the economy is growing. A declining ratio means exactly the converse, with the burden of debt decreasing in relation to economic growth. Manitoba's performance on this measure in recent years is presented in the following chart.

**Chart A-2(a) Ratio of Net Debt<sup>1</sup> to GDP**



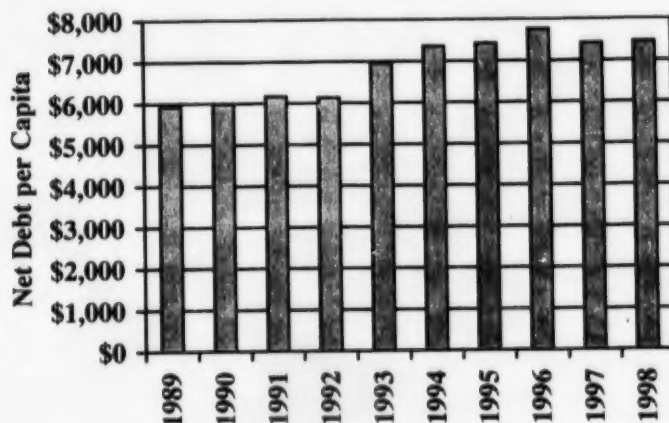
<sup>1</sup>PSAB defines net debt as the Province's liabilities, including the unfunded pension liability, less its assets

Over the last ten years, the Province's ratio of net debt to GDP increased in the period up to 1994. This meant that the burden of debt on taxpayers was becoming more onerous. Since 1994, however, the ratio has been declining somewhat. As the Province ran surpluses, its ratio of net debt to GDP declined, reflecting a gradual improvement in the Province's financial position.

### 3. RATIO OF NET DEBT PER CAPITA

The net debt per capita ratio measures the size of the Province's net debt in relation to the size of the Province's population. A declining ratio means that the debt burden of the Province is decreasing on a per person basis. An increasing ratio means that relative to the size of the population, the debt burden is increasing. Manitoba's record on this measure is noted in the following chart.

Chart A-2(b) Ratio of Net Debt<sup>1</sup> per Capita



<sup>1</sup>PSAB defines net debt as the Province's liabilities, including the unfunded pension liability, less its assets

Over the past ten years, the ratio (or burden) increased until 1996. At that point, the situation started to improve and this has continued through the 1997-1998 period. However, the debt per person is still well above what it was in 1989.

#### 4. CONCLUSION ON SUSTAINABILITY – THE FIRST PRIORITY

In recent years, the achievement of surpluses in the Province's summary financial statements displays an improvement in the sustainability of the Province's financial position. However, gains on this front in the most recent year (1998/99) were quite modest. In the current year, substantial expenditure variances were not fully covered even though revenues are at levels substantially higher than budgeted. It is possible that the underlying position has again begun to deteriorate.

More importantly, looking to the future, the analysis of "normalized" expenditure and revenue levels indicates that *existing ongoing, continuing revenue sources are insufficient to fund the continuing rate of increase in the expenditure base*. The gap between ongoing revenues and anticipated future expenditures amounts to approximately \$370 million based on the projected results for 1999/2000. Accordingly, *the financial sustainability of the Government's existing programs is questionable*. In other words, it is apparent that the Government will not be able to maintain its existing programs by relying on current revenue sources and rates.

#### B. MEASURES OF FLEXIBILITY – THE SECOND PRIORITY

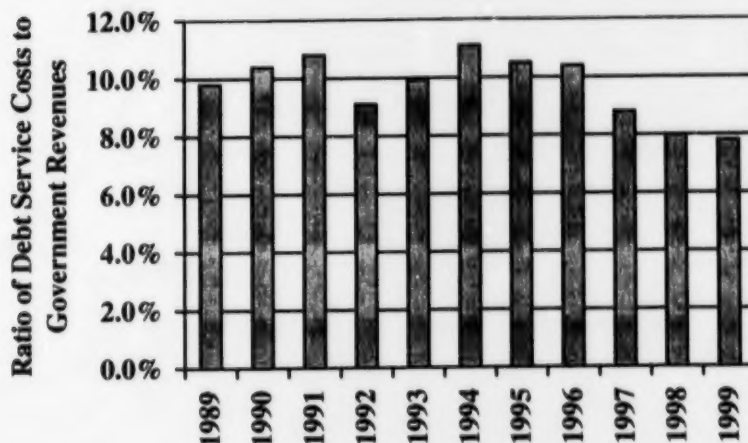
Flexibility is the degree to which a government can increase its financial resources to respond to rising commitments, by either expanding its revenues or increasing its debt burden. Indicators of flexibility include the ratio of debt service costs to government revenue and the ratio of own source revenue to provincial Gross Domestic Product.



## 1. RATIO OF DEBT SERVICE COSTS TO GOVERNMENT REVENUE

The more the Government pays in interest costs on its debt, the less it has available to support public programs. Over the last ten years, the ratio of debt costs to Government revenue has varied between 8% and 11%. However, it has decreased each year since 1994. This means that the proportion of government revenues used to fund debt service costs has steadily declined for each of the last five years. This again is an indication of improvement.

**Chart B-1 Ratio of Debt Service Costs<sup>1</sup> to Government Revenue**



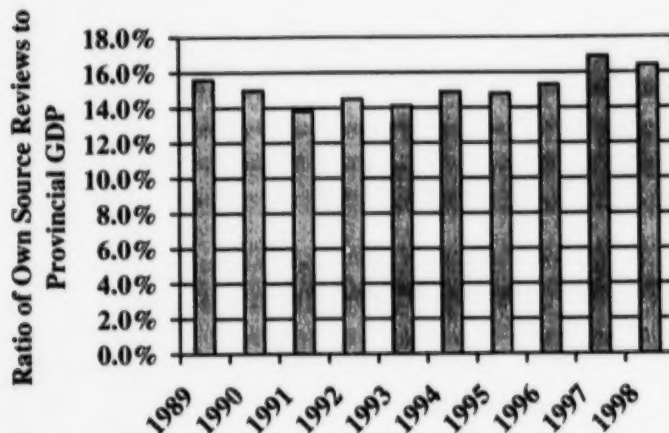
<sup>1</sup>Debt service costs are costs associated with the Province's aggregate borrowings.

As illustrated, in 1997, 1998, and 1999, the rate of debt service costs decreased noticeably, largely reflecting the impact of falling interest rates.

## 2. RATIO OF OWN SOURCE REVENUE TO PROVINCIAL GDP

The ratio of own source revenue (raised from taxes in Manitoba) to provincial GDP highlights the extent to which a government is removing money from the Province's economy. As the ratio increases, the Government's flexibility is decreased. Over the last ten years, this ratio has remained relatively stable, with a slight increase in 1997 and 1998.

**Chart B-2 Ratio of Own Source Revenue to GDP**



This means that since 1991, an ever increasing proportion of provincial revenues has been generated within the province. It could be viewed that, on balance, this self-reliance is positive.

### **3. CONCLUSION ON FLEXIBILITY – THE SECOND PRIORITY**

Reductions in borrowing rates in recent years have increased the Province's flexibility, making more of its general revenues available for program spending. However, the magnitude of the Province's own source revenues in relation to the size of the Province's economy has increased during this same period. Therefore, overall financial flexibility has been reduced because of the steady increase of revenues representing an even larger portion of the economic output of the Province.

The Government also is constrained in flexibility due to *The Balanced Budget, Debt Repayment and Taxpayer Protection and Consequential Amendments Act*. As described in Chapter II, this legislation sets out, under threat of penalty of salary reduction to the members of Executive Council:

- the relationship between revenues and expenditures that must exist each year;
- minimum annual debt repayment amounts, which effectively require the revenue available because of reduced debt costs to be channelled into increased debt repayment rather than programs; and,
- the requirement that a referendum be held if rate increases to major taxes are contemplated.

Generally, the Government has limited flexibility in dealing with its deteriorating financial circumstances.

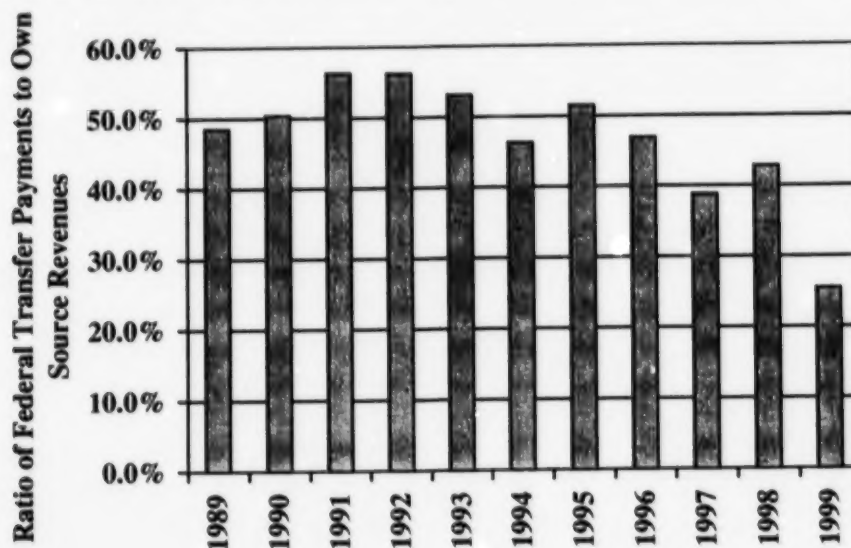
## C. MEASURES OF VULNERABILITY – THE THIRD PRIORITY

Vulnerability is the degree to which a government becomes dependent on, and therefore vulnerable to, sources of funding outside its control or influence, both domestic and international. Indicators of vulnerability include the ratio of federal transfer payments to provincial revenues and the ratio of foreign currency debt to net government debt.

### 1. RATIO OF FEDERAL TRANSFER PAYMENTS TO PROVINCIAL REVENUES

The ratio of federal transfer payments to provincial revenues measures the Province's dependence on revenues from sources which are outside of its control. The primary external revenue source for the Province is transfers from the federal government. The experience over the last ten years has been a general decrease in this ratio. This reflects a reduction in federal government support in recent years.

Chart C-1 Ratio of Federal Transfer Payments to Provincial Revenues



## 2. RATIO OF FOREIGN CURRENCY DEBT TO NET GOVERNMENT DEBT

The Province's Treasury Branch has adopted a policy of reducing foreign currency exposure. The ratio of foreign currency debt to net government debt is down considerably from a decade ago, from 33% in 1995 to 17% currently. This reduction mitigates the risk of debt costs rising because of changes in foreign currency rates and further improves the Province's financial position. This is a positive development.

## 3. OVERALL CONCLUSION ON VULNERABILITY – THE THIRD PRIORITY

Based on this framework for measuring financial condition, the measures of vulnerability show improvement in the last several years. The Province has become proportionately more reliant on revenues it generates within Manitoba (see above) and proportionately less reliant on federal transfer payments. This development has incurred both as a result of an increase in the absolute magnitude of Manitoba's own-source revenues and significant, continuing decreases in the absolute amount of federal transfer payments.

However, a conclusion that the Province is less vulnerable as a result of federal government revenue reductions is questionable. This view does not recognize the importance of ongoing and substantive federal government financial support to the Province. We would argue that this dependence makes the Government's financial condition more, not less, vulnerable.

An additional consideration is the fact that Manitoba's income taxes are determined as a percentage of federal income tax revenues generated within Manitoba only. Federal income tax rate reductions have a direct and negative impact on Manitoba's income tax revenues unless the Government increases its tax rate.

With respect to revenues generally, variability is a consistently complicating factor for the Government. The issue is particularly problematic as it relates to federal government transfers. The variability in the amount of federal revenue has been and is again this year dramatic when comparing budgeted to actual/forecast results. Additionally, the timing of the Government's ability to estimate the level of federal transfers to be received creates great uncertainty. As noted earlier in this report, in the current year, information received in January was substantially different from that which could be estimated in early November of 1999.

## D. OVERALL CONCLUSION ON THE PROVINCE'S FINANCIAL CONDITION

Considerable progress has been made in recent years in improving the financial position of the Province of Manitoba. However, several more significant challenges remain. The most critical of these issues is the *lack of sustainability* of the Province's current and anticipated expenditure levels. The Province cannot indefinitely rely on one-time and non-sustainable revenue sources, or it will be forced back into a deficit. Further challenges lie in the *limited flexibility* that the Government has to manage these circumstances, particularly in increasing existing own-source revenues. With respect to *vulnerability*, we suggest that the message is mixed – an improvement in the area of foreign currency debt, but a dramatically decreased reliance on federal government

transfers which makes the Province *increasingly dependent on own-source revenues*. This reality points to a need for the Government to consider *new or enhanced* sources of revenue and the need for much tighter expenditure controls.



## IV. FINANCIAL MANAGEMENT ISSUES AND RECOMMENDATIONS

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Both financial reporting and financial management speak to the fundamental issue of public accountability. Financial decisions are made, implemented, and the end results are reported back to the Legislature and the public. All three of these activities demand that individual elected representatives and public servants accept responsibility and exercise judgement as they fulfill their defined roles. We have noted in our review work that in each area – making decisions, implementing them, and reporting on results – the Government is in a position to make substantive improvements.

Due to the diligence of the Provincial Auditor in assessing the Government's performance, financial reporting has received major attention. We have concluded that financial management must be a focal point for the Government. The historical gaps in both revenue and expenditures from approved budgets to actual amounts, and the recurring difficulties in projecting and managing financial pressures, point to a need to strengthen financial management across the spectrum – from planning to decision-making to implementation and monitoring performance.

While a focus on the financial reporting issues is appropriate and important for the new Government, we caution that the resolution of outstanding issues in this area will not by itself resolve apparent financial management issues. Confidence in financial management needs to be strengthened. As a first step, the Government needs to define its financial management priorities and direction.

Timeliness of financial information is central to the confidence factor. Good information provides the Government with an ability to act on a timely basis to properly address issues as they arise. While a certain degree of uncertainty is inevitable for both revenue and expenditure results compared to plans, we note that the timing can be particularly problematic. We cite two examples:

- **Revenues:** Prior to release of our November 17, 1999 interim report, we asked Manitoba Finance officials about the level of certainty with respect to the revenue increase projected for the year. Based on information Manitoba Finance had received and reviewed to that date, we said in our November report that increased revenues were expected to be \$42 million. Additional data was received by Manitoba Finance throughout December. In early January, we were informed that the total variance was thought to be \$262 million, attributed primarily to new indications from the federal government respecting increases in transfer payments. In early February, this figure was revised to \$260 million.
- **Expenditures:** Over the course of our review work, expenditure estimates for Manitoba Health varied widely and continuously, including changes in a one-week period of more than \$30 million.

These examples raise issues of confidence and uncertainty that can have a profound impact on the Government's ability to plan and manage its finances. With both expenditures and revenues subject to such wide swings, good financial management is more difficult.

We found financial management issues in all four components of the Province's financial position. We discuss these below.

## **A. TREASURY FUNCTION AND SPECIAL FUNDS**

We have considered the situation related to the Province's treasury function and special funds and have reached these conclusions:

### **1. STRATEGIES FOR THE USE OF THE FISCAL STABILIZATION AND DEBT RETIREMENT FUNDS**

The existing *Fiscal Stabilization Fund Act* permits the Government to use the Fund as a financial management tool – drawing monies from the Fund in lean years and “setting aside” surplus monies in years where significant surpluses are experienced. In this way, the Fund is used as a mechanism to assist the Government in its management of the Province's cash flow. The Fund has been central to the reporting of balanced budgets.

By virtue of the way that the transfers from the Fiscal Stabilization Fund have been accounted for since its establishment, the use of this financial management tool has had a significant impact on the reported annual surplus or deficit position reported in Volume 1 of the Public Accounts. However, the Provincial Auditor has noted that this treatment of these transfers from the Fund is fundamentally inconsistent with Generally Accepted Accounting Principles. Using the accounting procedures sanctioned by the senior professional accounting body in Canada, more of the budget surpluses of the past years would not have occurred.

Further, we agree with the Provincial Auditor that the Government should move to fully adopting Generally Accepted Accounting Principles for public sector bodies in its presentation of the financial position and results of the Province. With a GAAP approach, the use of transfers from the Fiscal Stabilization Fund will no longer be accounted for as revenue. The Fund will become solely a financial and cash flow management tool available to the Government in achieving compliance with the balanced budget legislation. Government will need to articulate a strategy for how and when it will use the Fund for financial management purposes.

Similarly, transfers from the Province's Operating Fund to the Debt Retirement Fund have affected the annual reported surpluses. Alternatively, with the application of GAAP, Debt Retirement Fund transfers would not have an impact on the reported surplus or deficit. Instead, the Fund would be used solely as a tool for the Government to repay the Province's debt. Given this more appropriate perspective, the formulation of debt retirement policies and strategies would then become of critical importance.

*We recommend that the Government move now to fully adopting Generally Accepted Accounting Principles for public sector bodies in its presentation of the financial position and results of the Province. This will give Manitobans a more accurate and consistent accounting of the Province's financial situation.*

*We recommend that the Government alter its financial reporting processes so that Fiscal Stabilization Fund transfers are no longer accounted for as revenues. We further recommend that the Government use the Fiscal Stabilization Fund strictly as a financial management tool in the context of a multi-year financial management strategy.*

*We recommend that the Government formulate alternative but obligatory debt retirement priorities and strategies.*

## **2. A FRAMEWORK FOR MANAGING/MONITORING THE USE OF BORROWINGS TO FUND CAPITAL SPENDING**

Under previous accounting policies of the Province, capital spending was budgeted for in departmental appropriations or in other appropriations as part of the annual Consolidated Fund Estimates. With the move (beginning in 1999/2000) to the capitalization of fixed assets (non-infrastructure) purchases, the annual Estimates include a (non cash) charge for amortization of fixed assets and provide separate capital spending approval. This spending is financed through the issuance of new debt.

Intuitively, cash equal to the annual amortization of fixed assets in the Consolidated Fund is available to pay down this debt. However, we are not aware that any longer term framework has been developed to ensure that capital spending (and by implication, new public debt to finance the spending) is approved at levels that provide for the reasonable and sustainable repayment of the debt from cash resources provided by the Operating Fund. This is especially important because of the pressure on greater capital expenditures for health services and because of the apparent substantial infrastructure maintenance backlog that will almost certainly require large capital investments to replace existing infrastructure.

In addition, substantial capital expenditures in health and education are approved annually. Provincial funding for these takes the form of annual payments to fund the external debts incurred to build facilities. Consequently, capital approvals in any given year will commit future Operating Fund expenditures.

The development of a long-term view on capital expenditures, including full understanding of future year funding implications – especially in health – should be a priority of Government. Health capital expenditures almost always bring subsequent operating cost increases. Accordingly, the long-term view should take these future operational costs of new facilities into account. We understand that this is currently not being done.

*We recommend that the Government develop an overall multi-year framework to govern the capital budgeting process. This process should integrate the capital requirements of all departments. The framework should consider the source of funding for capital purchases, the required debt service payments on monies borrowed to fund the capital spending and the Government's ability to make the required debt service payments from cash flow generated by the operations of the Province.*

*We recommend that health capital spending adopt a more long-term view with respect to both anticipated capital needs and the amount of future operating funding committed by current capital approvals.*

## **B. OPERATING FUND**

Financial management issues related to the Province's Operating Fund are centred on the Government's need to effectively plan, make decisions, implement, and monitor revenue and expenditure measures. We have identified a number of considerations that necessarily have an impact on the Government's ability to set its financial management course.

The Province's Operating Fund is a large and complex entity, with numerous revenue streams, a significant number of types of expenditures, and a multitude of transactions. For the budget to be truly balanced, the Government must manage its resources more effectively despite constant change. For example, the stability of revenue sources changes over time, notably the level of federal government transfers. The creation and use of the Fiscal Stabilization and Debt Retirement Funds has created another layer of complexity. And the Government faces emergency situations that demand unplanned expenditure commitments. These factors create a complicated financial management environment. However, a significant portion of the Province's revenue and expenditure picture is relatively stable and predictable and can be more expertly managed by the Government. The predictable revenue and the tool of expenditure control must be major factors in setting the annual approved budget.

### **1. A STRUCTURAL FINANCIAL CHALLENGE**

As described earlier in this report, we have completed an analysis of the past three fiscal years and the current year's projected results for the Province's Operating Fund to produce a "normalized" picture of each year's reported financial result, eliminating the impact of non-recurring revenues, transfers from the Fiscal Stabilization Fund and non-recurring expenditures.

This analysis indicates a deteriorating surplus/deficit trend in recent years. It also demonstrates that expenditures at the projected 1999/2000 levels are significantly greater than anticipated continuing revenues. This gap poses a significant financial management challenge for the Government.

The Province's recent financial history, the projections for the current year and the forecasts for the following year all suggest that the demands for expenditures will consistently outstrip the annually generated revenues of the Province. By using transfers from the Fiscal Stabilization



Fund and by utilizing one-time unsustainable revenues substantially in excess of those budgeted from the federal government (e.g., the CHST supplement transfer), the Government has achieved a surplus position in its Volume 1 reporting over the past two years. However, in the absence of substantially increased and certain revenues, continuation of this approach is not sustainable or appropriate.

Acknowledging this fundamental imbalance of revenues and expenditures must be a cornerstone of this Government's long-term financial management framework.

*We recommend that the Government immediately develop a plan to address the structural deficit in the Operating Fund, and begin implementation in 2000.*

## **2. A NEED TO ESTABLISH AND MAINTAIN SPENDING PRIORITIES**

In the face of the unsustainable position highlighted above, it is of paramount importance that the Government identify areas of higher spending priority and set targets to reduce costs in other areas.

We understand that historically, the Government's spending restraint efforts have tended to focus on nominal "across the board" reductions in program budgets. However, the extent of the clearly unsustainable balance of expenditures and revenues means that this approach will be insufficient to produce the required financial results. Given that there is a need to increase spending in those areas identified as policy priorities by the new Government, substantive offsetting reductions in spending are necessary in other areas. To determine where reductions can and should be made will be a difficult task. It will inevitably involve changes to the operational and administrative arrangements of Government. Part of this must be further consideration of steps to increase public sector productivity by redesigning government processes, operations and structures.

We will address this issue further in our Phase II report on the Government's budget and expenditure management process.

*We recommend that the Government actively pursue further opportunities for the enhancement of public sector productivity by using alternative service delivery and other means.*

## **3. EVOLVING HUMAN RESOURCES ISSUES**

The Government faces particular human resources challenges around delivery and management of government programming. A key consideration will necessarily be to determine the required staffing levels to deliver the new Government's highest priority services.

A second consideration relates to the need to renew the public sector workforce, a factor that can be affected to some degree by the large number of retirements expected over the next few years. A key element in attracting and retaining younger people in all areas of the public sector is compensation.



\$560 million of the total \$6 billion budget is for civil service compensation. Further, a significant part of the \$6 billion goes to health care and education, where the largest part of expenditures is for compensation. Accordingly, the management of the public sector compensation framework is a key issue for the Government.

*We recommend that the Government include in its financial management framework an approach to public sector compensation and employment that (a) aligns resources to approved programs, (b) rewards competence and productivity, and (c) addresses the issues of precedent, expectations, and the Government's capacity to deliver public services.*

#### **4. FINANCIAL MANAGEMENT OF THE HEALTH PORTFOLIO**

Because of the dominant impact of health spending on the overall budget, the strength of financial management in this area is especially important to the Government's ability to ensure effective use of limited resources. Financial management of the health care budget was therefore a focal point of our review.

The role of Manitoba Health in managing health care expenditures has been evolving over the past several years, most recently with the establishment of Regional Health Authorities. However, the department remains the fundamental source of management information for the Government's decision-making in this high priority and expansive area.

We worked with Manitoba Health officials to understand and validate the significant expenditure variances identified for the current year. However, it became apparent that Manitoba Health had difficulty obtaining current and precise information about certain costs being incurred by individual health care facilities. We were advised that the information was maintained and controlled by health care providers and that current, accurate information on the financial aspects of many of the operations of the health care system was not centrally available. Manitoba Health indicated that these requirements for operational or financial information are addressed primarily through ad hoc efforts to gather specific pieces of information.

This situation, combined with a continuing series of large variances from budgeted expenditures, gives support to the new Government's decision to focus attention on more effective management of health care spending. Central to this process should be the confirmation of a clear governance framework for the health care system, including the distribution of appropriate management and reporting roles and responsibilities between Manitoba Health and health care providers. In the longer term, this will require major improvements in the systems to collect, report and project critical information.

The degree of fluctuation in estimating Manitoba Health expenditures for the current year has been substantial, involving swings in the order of \$30 million in a period of weeks. This is evidence of the financial information deficiencies that need to be addressed.

As we understand it, the timing of the budget process for Manitoba Health and Regional Health Authorities is particularly problematic. By the time that RHAs are informed of their budgets and

the RHAs then inform their health provider organizations of their budgets, the fiscal year has already started, and in some instances is well along. This delay inevitably has an impact on both the current year and future year expenditures, as program assumptions are made and their related costs become embedded in the expenditure base. Government needs to tackle this timing issue with a view to earlier communications of budgetary parameters to the RHAs.

A significant component of health care expenditures is the funding to support approved capital programs and annual debt service for capital investment in earlier years. Treasury Board staff analysis of health capital commitments has identified that:

- It is not uncommon for the actual costs of capital projects to be much higher than the initial estimates. This can be the result of poor estimating, a revision to scope, or the impact of changes in construction market circumstances due to the passage of time.
- Mid-year approvals have at times resulted in increases to the annual capital program.
- Future year commitments have frequently not provided for the impact of related operating costs to run the capital facilities. In many instances, these are substantial.

The approved capital programs involve a commitment of substantial funding for future years just to service the debt costs. For example, by 2003/04, the annual spending by Manitoba Health for capital debt service costs will have grown to more than \$130 million.

The health capital program will necessarily be a focus for the Government as it deals with defined financial pressures for future years.

*We recommend that the Government immediately focus attention on more effective management of the health care budget.*

*We recommend that the Government confirm a clear multi-year governance framework for the health care system, including the clarification of management and reporting roles and responsibilities between Manitoba Health and health care providers in the Regional Health Authorities. This will require better and more timely financial information on actual expenditures and costs of services.*

*We recommend that the Government adopt both short-term and long-term approaches to improving health care management information systems.*

## 5. THE PENSION ISSUE

In recent years, two significant pension liability issues have been identified with respect to the Province's pension liabilities. First, the Provincial Auditor has disagreed with the Province's failure to record pension costs for the current service of employees throughout the year in the Operating Fund. Second, the \$2.8 billion pension liability is completely unfunded, an issue that has been highlighted for several years and requires a solution.

The financial accounting and reporting of pensions are dealt with in the following chapter. However, regardless of the way in which the unfunded pension liability is accounted for, a

significant financial management issue is inherent in these circumstances. Over the past 10 years, the unfunded pension liability has increased from \$1.17 to \$2.8 billion. This unfunded liability represents the present value of the pension benefits to which Government of Manitoba employees, teachers and MLAs are entitled for services provided to the current time. This amount will continue to increase as employees continue to provide service.

The Province's current approach of funding only the payments which are made to retirees in a given year has two specific implications:

- As a result of the significant increase in retirements from the civil service anticipated over the next decade, the "cash cost" to fund payments to retirees will grow substantially. By way of illustration, payments to retirees have grown from \$37 million in 1988 to \$116 million in 1998/99.
- The annual growth in the pension liability attributable to current services is not funded. Consequently, the unfunded pension liability has continued to grow.

Manitoba Finance has developed options that the Government might consider for funding the pension plan. In addition, the Government should obtain an accurate projection of ongoing financial implications of the pension issue under a variety of funding options. The Government's preferred option should be identified and acted upon. Clearly, given the sheer magnitude of the unfunded liability, the resolution of this issue can only be achieved with a long term strategy to retire this debt. Any delay in formulating and beginning to implement this strategy will compound the issue by permitting the unfunded liability to increase.

As the Government evaluates which of the options it wants to implement, we suggest that clear principles be used to test the merits of each proposed strategy. The following represent the ideals Government should aim for in addressing the pension issue:

- The Government's contribution to the pension plan should be sufficient to at least offset the increase in the liability attributable to the current services of employees, teachers, and MLAs. In other words, the unfunded pension liability should not be allowed to increase beyond its present level.
- In addition to maintaining the unfunded liability at a consistent level, additional contributions should be considered so that over a specified period, the amount of the unfunded liability will be significantly reduced and ultimately fully eliminated.

However, since the cash required to achieve these ideals is unlikely to be readily available, an alternative framework would be to:

- Begin payments at levels in excess of current "pay as you go" requirements. Some contribution annually toward the unfunded liability would be progress, however modest.
- Begin addressing current service costs. For instance, consider funding current service costs of all new employees coming into government.

Adherence to principles is critically important because the unfunded pension liability is different from a typical debt obligation. Traditional debt obligations contractually require interest payments to maintain the debt level at a consistent amount until payments beyond the amount of the interest reduce the obligation. In the case of the unfunded pension liability, there are no contractual arrangements requiring the Province to make "the principal and interest" payments. The payments which the Province has made to cover the pensions of existing retirees are currently insufficient to meet even the interest costs associated with the unfunded pension liability. Therefore, in the absence of a commitment by the Government to adhere to the above two principles, the unfunded pension liability continues to grow.

However, the Government should begin viewing the pension liability as part of the Province's aggregate debt. Addressing the pension and debt repayment issues could then be grouped as a "debt retirement" objective.

We recognize that the Government's action on the pension issue must deal with the practical reality of the Government's resource capacity to deal with the situation over time.

*We recommend that the Government adhere to the following principles when determining how to approach the pension issue:*

- (1) Begin payments at levels in excess of current "pay as you go" requirements. Some contribution annually toward the unfunded liability would be progress, however modest.*
- (2) Begin addressing current service costs. For instance, consider funding current service costs of all new employees coming into government.*

## 6. GOVERNANCE OF CROWN ORGANIZATIONS

As described earlier in this report, a considerable portion of the services funded by Government are provided to Manitobans through Crown organizations. The expenditure variances for the current year for these entities indicate that approximately \$202.1 million of the 1999/2000 expenditure variances will be incurred by such Crown organizations. In particular, the deficits of the Regional Health Authorities and Winnipeg Child and Family Services are over and above amounts that were set out in the original approved budget.

The expenditure management and control processes that the Government currently utilizes places significant accountability on government departments for the funding allocated to them in the annual estimates process. Departments are required to seek Treasury Board approval in advance of incurring specific unbudgeted expenditures. With respect to general operations, the departments are required to keep Treasury Board regularly informed as to the status of their spending vis-a-vis their budget estimates.

The departments, in turn, provide funding to Crown organizations. The Crown organizations are required to provide considerable information to the departments to which they are responsible.



This information assists departments in monitoring expenditure levels. However, where Crown organizations spend more than was approved in their original budgets, the departments appear to see their role as primarily to indicate that increased funding for the Crown organization will be required.

Expenditure variance circumstances can arise for one or two reasons for Crown organizations. First, unanticipated costs may surface as they do for any program. However, another scenario is that the originally budgeted funding may have been inadequate to begin with, in order to permit the organization to achieve the objectives set out in its mandate. Crown organizations may be operating on the basis that their fulfillment of mandate takes precedence over management of resources within budget levels. The obvious solution is to bring the approved budget or expenditure limit and the service delivery objectives into line at the start of the year, and then to aggressively control expenditures to this level.

A clearly complicating factor in the relationship between Government as funder and Crown organizations as program delivery mechanisms is the distance between the two. With the number of layers of management reporting, it is difficult to achieve effective and timely information flow, communications, and understanding. We see this particularly evident in health care, where the layers involve Government, Manitoba Health, the Regional Health Authorities, and individual health care providers (e.g., hospitals, long term care facilities, community health clinics, etc.). Where health care providers contract for services, an additional layer is added.

The situation is also complex in education, with the Government, Manitoba Education and Training, the Council on Post Secondary Education, and education providers (e.g., universities and community colleges). The level of confidence in "umbrella" organizations such as the Regional Health Authorities and the Council on Post Secondary Education is therefore extremely important, both for the Government as funder and for the organizations responsible for direct delivery of services.

The understanding and commitment of all parties (Crown organizations and their funding Departments) to sound financial management principles and clearly defined roles and responsibilities are key to dealing effectively with this challenge.

*We recommend that the Government assess and enhance the governance framework for Crown organizations with the objective of confirming for Crown organizations – and for the departments that fund them – an understanding and commitment to financial management principles and clearly defined roles and responsibilities.*

## C. GOVERNMENT ENTERPRISES

Historically, Manitoba Liquor Control Commission and Manitoba Lotteries Corporation have transferred the amount of their annual surplus to the Province's Operating Fund. Such transfers or dividends have not been paid from Manitoba Hydro or the Manitoba Public Insurance Corporation.



We are aware that the Government is considering the strategies employed in other provinces where a regular return on the provinces' invested capital is paid by the Government Enterprises to the Operating Fund of the Province. Such a strategy in Manitoba would require the Government to consider two particular matters. First, legislative amendments may be required in order to make the transfers possible. Second, a government policy framework would need to be developed to govern the nature and extent of revenue transfers or dividends.

As the Government is contemplating the allocation of a certain portion of a Government Enterprise's annual income or a portion of a Government Enterprise's accumulated/retained surplus, the following factors must be considered when determining the amount of such transfers to the Operating Fund:

- How much of the annual income is required to be reinvested in the enterprise's business to enable it to maintain and expand its service delivery capabilities? What is the business basis for the accumulation of the reserves to date?
- Does the amount of the contemplated transfer impair the enterprise's ability to operate in its business environment?
- Where one of the public policy objectives is the provision of low cost service to Manitobans, what will the impact be in terms of rate/cost increases to consumers of the enterprise's service? Further, what constraints is the Government prepared to place upon itself with respect to the impact that such transfers might have on rates/costs?
- How will the obligation to pay dividends integrate with regulatory protection of the public interest?

These questions need to be answered before the Government implements the collection of dividends from enterprises for the Province's Operating Fund.

Private sector companies pay both income tax and dividends, and the approach to Crown Enterprises in Manitoba could involve either or both revenue-producing measures. We understand that Ontario has recently addressed the taxation issue, and Manitoba may benefit from a review of that situation. Also, in assessing the appropriate policy framework for Manitoba, the Government will need to consider both short-term and long-term perspectives, and determine which approach best serves each timeframe.

With the clarity of a well-articulated framework, Manitoba taxpayers will be able to more readily appreciate the rationale for the revenue policy and have the assurance that the Province's Operating Fund is not being enriched at the expense of the financial strength of the Government Enterprises or through a disguised "tax".

*We recommend that as the Government looks at increasing revenue from selected Government Enterprises for transfer to the Operating Fund, assurances be provided that any such transfers will not compromise the ongoing financial strength or integrity of the Government Enterprises as they discharge their individual service delivery mandates.*

## **D. FINANCIAL MANAGEMENT ISSUES AFFECTING MULTIPLE COMPONENTS OF PROVINCIAL FINANCES**

In the course of our review, we found a number of financial management issues that affect more than one component of the Province's financial position.

### **1. BUSINESS CASES FOR TECHNOLOGY PROJECTS**

As we are reporting on separately, the Province has made substantial investments in information technology. We were advised by officials from several departments that they anticipate their costs of operation will increase as a result of newly implemented technologies.

When information technology projects are envisioned and then distilled into an executable strategy, the benefits to be obtained from the investment should be articulated and quantified. This articulation of the targeted benefits of the investment is an essential component of sound management in determining whether there will be sufficient return on the investment to support the technology expenditure. The benefits that might be achieved include improved service delivery capacity or decreased costs of operations through identification and realization of improved efficiencies.

Now that the Better Methods and Desktop Management technology projects have been implemented, a more focused effort to realize the improved service delivery capacity or decreased costs should become a part of the Province's technology management strategy. Using the information systems produced by these two projects to provide better information to management and to improve productivity will ensure that the Province realizes an appropriate level of return on its investment.

*We recommend that the Government actively undertake a more focused effort to realize improved service delivery capacity and cost control in its ongoing technology projects.*

### **2. INTERNAL CONTROLS IN THE SAP TRANSACTION PROCESSING ENVIRONMENT**

During our discussions with many departments, finance and administrative officials indicated that in their view, controls over the processing of departmental transactions, particularly purchases and payments, were not as strong as they were formerly under the system that preceded SAP.

We note that it is clear that internal controls in the SAP environment are substantially different in appearance and form than in systems such as those formerly used by the Province, and that it is common for new users of SAP systems to feel that a degree of internal control has been lost in the new system environment. This is because the nature of the controls, themselves, are substantially different.

However, we also note that SAP is not yet fully implemented. In particular, on-line approvals by managers is one key component not yet implemented, a fact that can contribute to weaker controls.

Given the importance of internal controls to overall financial management, the Government will need to ensure the new SAP environment serves this purpose effectively. A preliminary review may indicate that controls are adequately achieving the same control objectives as were present in the former system. It may simply be that the nature of the controls themselves is substantially different. It may also be possible that there are justifiable concerns that can be identified by the departments that should be appropriately addressed. However, the identification of this concern by the departments should serve as a call to ensure that the level of controls, particularly over purchases and payment, is appropriate.

*We recommend that the Government assess the appropriateness of internal controls, particularly over purchases and payments, in the new SAP environment.*

### 3. MAINTENANCE EXPENDITURE DEFERRALS

During our discussions with government departments and Crown agencies, officials indicated a large number of areas they consider to have experienced an unacceptably high level of maintenance expenditure deferrals. This term refers to circumstances where departmental and entity officials believe that normal and appropriate repair, maintenance and facilities expansion that should have been done to maintain the long term operating capacity of individual capital facilities has not been completed due to inadequate funding. More significant items identified are noted in Exhibit 35.

## Exhibit 35 – Maintenance Expenditure Deferrals

| <i>Department/Entity</i>            | <i>Nature of Concern</i>                                                                                                                                                                                                                                                                                                                                         |
|-------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Public Schools Finance Board        | Aging school facilities and increased expectations for technology capabilities result in significant pressures to increase capital spending on school facilities.                                                                                                                                                                                                |
| Council on Post-Secondary Education | Universities who own and maintain their own capital assets and the colleges where this function is performed by the Department of Government Services both identify the need for significant upgrades, repairs and expansion of post-secondary facilities and equipment to maintain and expand program offerings and accommodate plans for increased enrolments. |
| Manitoba Government Services        | The annual budget provided for repair and maintenance of government facilities is less than what the department believes is an appropriate level. As a consequence, the condition of various government facilities is reported to be deteriorating.                                                                                                              |
| Manitoba Highways                   | Concerns: <ul style="list-style-type: none"> <li>• funding to maintain the maintenance equipment fleet is inadequate;</li> <li>• funding to repair existing roadways is inadequate; and,</li> <li>• funding for major rehabilitation of particular roadways is insufficient.</li> </ul>                                                                          |
| Manitoba Health                     | Maintenance of hospital facilities, acquisition of state-of-the-art equipment and the need to accommodate increased patient loads has created significant pressure on capital spending.                                                                                                                                                                          |
| Manitoba Housing                    | The Department has compiled a substantial list of modernization and improvement projects that need to be done to adequately maintain the Province's housing stock.                                                                                                                                                                                               |
| Manitoba Water Services Board       | A substantial backlog of required rural water treatment projects has been compiled. The funding required for these projects exceeds the funding which is anticipated to be available over the next five years.                                                                                                                                                   |
| Manitoba Intergovernmental Affairs  | The Department anticipates continued discussions with the City of Winnipeg regarding the City's capital and infrastructure needs.                                                                                                                                                                                                                                |

In each of these cases, the responsible department had formulated its own views on the seriousness of the situation. The relevant department has also registered its concern about the need for increased funding with Treasury Board and the Department of Finance.

However, a comprehensive survey of these circumstances has not yet been prepared. In order for the Government to make decisions about which of these areas is to be given priority when capital and maintenance funding allocations are made, it would be appropriate to have this studied with a view to:

- Applying the same criteria to assess the seriousness of each one of the expenditure deferrals;
- Developing a comprehensive understanding of what the true magnitude of these deferrals is; and,
- Preparing a plan to begin to meet the confirmed needs once the details have been reviewed.

It would be unreasonable to initiate such a study with the expectation that new monies will be available to address every need. On the other hand, without a complete view and an appropriate comparison of the degree of need for each of these areas, it will be virtually impossible for the new Government to make considered decisions that take all competing priorities into account.

*We recommend that the Government review and assess the deferral of maintenance expenditures and then develop a long term and steady course of action for addressing the problem, once the dimensions are clear.*



## **V. FINANCIAL REPORTING ISSUES AND RECOMMENDATIONS**

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Financial reporting is central to the Government's accountability framework, and has been a focal point of our review.

Achieving transparency in financial communications generally and in financial reporting specifically must be central to all entities.

### **A. ACCOUNTABILITY / REPORTING CONTEXT**

The objective of financial statements and financial reporting of all public or private enterprises is the communication of information to users. To enable an organization to effectively communicate financial information, the information must be prepared on a timely, reliable basis and must be relevant to the users' needs. In reviewing the appropriateness of the financial reporting of the Province of Manitoba, these considerations must be taken into account. Key users of the financial information cover a broad spectrum of interested parties including members of the Legislative Assembly, the general public, creditors, and bond rating agencies.

A significant attribute of financial reporting is the application of a consistency of accounting treatment, both between periods for the same entity and between similar types of entities. As a means of achieving consistency amongst various public sector entities, the Canadian Institute of Chartered Accountants (CICA) has authorized the Public Sector Accounting Board (PSAB) to issue recommendations and guidance on matters of accounting in the public sector.

The PSAB "issues such recommendations and guidance to serve the public interest by strengthening accountability in the public sector through developing, recommending and gaining acceptance of accounting and financial reporting standards of group practice". PSAB has formulated the following financial statement objectives that should be used as a point of reference in the evaluation and recommendations of financial reporting matters with respect to the Province of Manitoba.

1. Financial statements should communicate reliable information relevant to the needs of those for whom the statements were prepared in a manner that maximizes its usefulness. As a minimum, this requires information that is clearly presented, understandable, timely and consistent.
2. Financial statements should provide an accounting of the full nature and extent of financial affairs and resources for which the Government is responsible, including those related to the activities of Government agencies.
3. Financial statements should demonstrate the accountability of the Government for the financial affairs and resources entrusted to it:

- a) Financial statements should provide the information useful in evaluating the Government performance in the management of the financial affairs and resources.
  - b) Financial statements should provide information useful in assessing whether financial resources were administered by the Government in accordance with the limits established by the appropriate legislative authorities.
4. Financial statements should account for the sources, allocation and the use of the Government's resources, the accounting period and show how Government financed its activities in the period and how it met its cash requirements.
  5. Financial statements should present information to display the state of the Government's finances.
    - a) Financial statements should present information to describe the Government's financial condition and accounting at the end of the accounting period. The financial statements should provide information that is useful in evaluating the Government's ability to financing its activities and to meet its liabilities and commitments.
    - b) Financial statements should provide information that is useful in evaluating the Government's ability to finance its activities and to meet its liabilities and commitments.

*We recommend that the Government now fully adopt the financial reporting objectives articulated by the Public Sector Accounting Board of the CICA.*

*We recommend that the Government indicate that for all external financial reporting of its financial position and results of operations, the consolidated government reporting entity, using full application of Generally Accepted Accounting Principles (GAAP), will be the basis for financial reporting.*

## **B. EXISTING PROVINCE OF MANITOBA FINANCIAL REPORTING TO THE PUBLIC**

The public accounts of the Province of Manitoba are prepared by statutory requirement, in accordance with *The Financial Administration Act*. For the fiscal year ended March 31, 1999, the Province produced its financial information in four volumes as follows.

### **1. VOLUME 1**

Volume 1 contains the financial statements of the Operating Fund and Special Funds of the Government and schedules of supporting information. The financial statements in Volume 1 only reflect transactions and balances of the Operating Fund and Special Funds of the Province of Manitoba. The Volume 1 financial statements however, are what are principally used for the budgeting process and follows the accounting principles used in that process.

In addition, the financial statements are used to assess the Government's compliance with *The Balanced Budget, Debt Retirement and Taxpayer Protection Act*. When the Government communicates both its budget estimates for the year, as well as its financial results vis-a-vis these estimates, it is the Volume 1 financial statement which is commonly being referred to when describing the Government's financial position.

However, other significant financial activities of the Government which occur outside the Operating Fund and the Special Funds are not included in the Volume 1 financial statements. In addition, the accounting principles used for Volume 1 are not in accordance with GAAP. The presentation of the Volume 1 financial statements, which excludes many of the non-Operating Fund entities, is in and of itself not in accordance with Generally Accepted Accounting Principles. In addition, Volume 1 financial information does not include provision for the pension liability to which the Province of Manitoba has a significant and unfunded obligation.

## 2. VOLUME 2

Volume 2 contains details of compensation paid to employees as well as payments to corporations, firms and other individuals in Governments and Government agencies.

## 3. VOLUME 3

Volume 3 contains the summary financial statements of the Government and schedules of supporting information. These financial statements reflect the consolidation of the financial operations of all organizations integral to the overall operation of Government in performing its executive function.

The calculation of projected Volume 3 results for 1999/2000 would be as noted in Exhibit 36.

### Exhibit 36 – Calculation of Projected Volume 3 Results for 1999/2000

| Calculation                                                          | Amount<br>(millions) |
|----------------------------------------------------------------------|----------------------|
| Projected Volume 1 deficit                                           | (\$100)              |
| Add:                                                                 |                      |
| Projected income from Government Enterprises not otherwise included: |                      |
| • Workers Compensation Board                                         | 4                    |
| • Manitoba Hydro                                                     | 142                  |
| • MPIC                                                               | 61                   |
| Projected income from Crown Organizations                            | 50                   |
| Adjust pension expense to GAAP basis                                 | (123)                |
| Other                                                                | (185)                |
| • Eliminate effect of Fiscal Stabilization Fund transfer             | 75                   |
| • Eliminate effect of Debt Retirement Fund transfer                  | 24                   |
| • Other                                                              |                      |
| <b>Projected Volume 3 Deficit</b>                                    | <b>(\$52)</b>        |

The Volume 3 summary financial statements provide a much more comprehensive picture of the various entities for which the Government is responsible. For the year ended March 31, 1999, the Government did appropriately include all entities within the definition of the financial reporting entity with the exception of the Regional Health Authorities (RHAs), which were not included. It is noted in the summary financial statements that the RHAs are in the transitional phase of development and the RHAs would be included for the fiscal year 1999 – 2000 and subsequent years.

Schedule 7 to the summary financial statements notes that the statements comprising the Government Reporting Entity include the Operating Fund and Special Funds, all crown organizations, and Government Enterprises (including all Crown corporations). This inclusion of entities within the Government reporting entity is consistent with the PSAB recommendations which state that "the Government reporting entity should comprise the organizations that are accountable for the administration of their financial affairs and resources either to a Minister of the Government or directly to the Legislature, and are owned or controlled by the Government".

Government control is defined as "an organization when without requiring the consent of others or changing the existing legislative provisions, the Government has the authority to determine the financial and operating policies of that organization". The determination of the financial operating policies of an organization allows the Government to establish the fundamental basis of the conduct of the organization's financial affairs as well as the deployment of its resources. In addition to the previously mentioned exclusion of the RHAs from the financial statements for the year ended March 31, 1999, two other deviations from GAAP were noted.

Certain assets under development in the systems area have not been re-stated to the expenditure basis of accounting for such capital assets. This was a transitional treatment as the Government is currently moving to the full capitalization of its capital assets. The new capitalization policy will be fully implemented for the year 1999/2000. Secondly, it was noted that material adjustments resulting from changes in accounting policies were not being appropriately recorded in prior periods. Instead, it is the Government's practice to prospectively reflect the effects of such adjustments in the accumulated Government deficit. In other words, prior years' balances are not being re-stated. As well, it should be noted that the summary financial statements which fully account for the estimated Governmental Pension Liability stood at an amount of \$2.8 billion as at March 31, 1999.

#### **4. VOLUME 4**

Volume 4 contains the detailed financial statements of funds, organizations, agencies and enterprises which have been consolidated and summarized in the Volume 3 financial statements and form a reference for such summary financial statements.

### **C. THE PROVINCIAL AUDITOR'S VIEWS**

We have taken careful note of the Provincial Auditor's views with respect to the Government's financial reporting practices. In his report dated March 1999, he commends the Government for the continued improvements in the summary financial statements (Volume 3), the 1998/99



improvements in the reporting of employee severance benefits, and the planned changes for 1999/2000 with respect to accounting for capital assets and the inclusion of the RHAs. However, the Provincial Auditor continues to be very concerned about accounting matters related to the Consolidated Fund financial statements (Volume 1). These can be summarized in four areas.

## 1. REPORTING ENTITY

As previously noted, the Volume 1 Consolidated Fund Financial Statements (CFFS) contains only the Operating and Special Funds of the Government and provides an incomplete picture of the financial operations of the Government.

*We recommend that the Government present the consolidated financial position (i.e., Volume 3) as the primary picture of the Province's financial position.*

*We recommend that the Government change the presentation of the existing Volume 3 so that the Government's financial statement reflecting the entire government reporting entity also shows annual performance relative to the Government's stewardship of taxation, departmental and federal revenues, debt management, and expenditure control.*

*We recommend that the Government consider a new form of full, true and plain reporting that is more descriptive and explanatory, such as an annual report that includes:*

- *the consolidated financial position and results of the consolidated reporting entity;*
- *discussion and analysis of the financial statements, with commentary on the financial management strategies employed during the year; and,*
- *information on the Legislature's accountability for the taxation, departmental and federal transfer revenues and expenditure appropriations that are under its authority.*

## 2. INAPPROPRIATE DISCLOSURE AND ACCOUNTING TREATMENT OF INTER-FUND TRANSFERS

Included in CFSS Volume 1 for the year ended March 31, 1999 are three separate inter-fund transfers:

- a) from the Operating Fund to the Fiscal Stabilization Fund: \$31 million;
- b) from the Fiscal Stabilization Fund to the Operating Fund: \$186 million; and,
- c) from the Operating Fund to the Debt Retirement Fund: \$150 million.

As noted by the Provincial Auditor, only the first of these inter-fund transfers is appropriately disclosed "after the surplus" for the year had been determined. Transfers b) and c) are disclosed as revenue and expenditure elements within the Operating Fund and have been utilized for the creation of a budgetary surplus for the year. As the Provincial Auditor notes, "since these transfers do not represent economic activities of the Government with other parties, they should not be disclosed as revenue" or expenditure transactions.



*We recommend that the Government not characterize as revenue or expenditure transactions inter-fund transfers that do not represent actual economic activities of the Government.*

### 3. PENSION LIABILITIES EXCLUDED FROM THE CONSOLIDATED FUND

As previously noted, the CFSS Volume 1 financial statements do not incorporate any provision for the unfunded pension liability owing to employees, teachers, and MLAs for past service pension benefits. These liabilities are estimated to be \$2.8 billion as at March 31, 1999 and neither the pension liability nor the change from the prior year have been incorporated into the CFSS financial report. Instead, the Government chooses to show the pension expense on a "cash basis" as it is paid.

The experience of other jurisdictions with respect to the reporting of employee pension liabilities is as noted in Exhibit 37.

#### Exhibit 37 – Other Jurisdictions on Pensions

| <i>Jurisdiction</i>   | <i>Pension liability on Statement of Financial Position for Consolidated Revenue Fund</i> | <i>Pension liability on Statement of Financial Position for Reporting Entity</i> | <i>GAAP Pension expense recorded in annual expenses for Consolidated Revenue Fund</i> | <i>GAAP Pension expense recorded in annual expenses for Reporting Entity</i> |
|-----------------------|-------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------|---------------------------------------------------------------------------------------|------------------------------------------------------------------------------|
| British Columbia      | Yes                                                                                       | Yes                                                                              | Yes                                                                                   | Yes                                                                          |
| Alberta               | N/A                                                                                       | Yes                                                                              | N/A                                                                                   | Yes                                                                          |
| Saskatchewan          | No                                                                                        | Yes                                                                              | No                                                                                    | Yes                                                                          |
| <b>Manitoba</b>       | <b>No</b>                                                                                 | <b>Yes</b>                                                                       | <b>No</b>                                                                             | <b>Yes</b>                                                                   |
| Ontario               | N/A                                                                                       | Yes                                                                              | N/A                                                                                   | Yes                                                                          |
| Quebec                | N/A                                                                                       | Yes                                                                              | N/A                                                                                   | Yes                                                                          |
| New Brunswick         | N/A                                                                                       | Yes                                                                              | N/A                                                                                   | Yes                                                                          |
| Nova Scotia           | Yes                                                                                       | Yes                                                                              | Changing to PSAB                                                                      | Changing to PSAB                                                             |
| Prince Edward Island  | Yes                                                                                       | Yes                                                                              | Yes                                                                                   | Yes                                                                          |
| Newfoundland          | Yes                                                                                       | Yes                                                                              | Yes                                                                                   | Yes                                                                          |
| Northwest Territories | N/A                                                                                       | Yes                                                                              | N/A                                                                                   | Yes                                                                          |
| Yukon                 | Yes                                                                                       | Yes                                                                              | Yes                                                                                   | Yes                                                                          |

Source: Manitoba Finance  
N/A = not applicable

As indicated, many provinces are moving to GAAP reporting, so Manitoba is currently in the minority.

### 4. TIMING OF VOLUME 1 VS. VOLUME 3

The 1998/99 Volume 1 CFSS was completed and released by the Minister of Finance on September 10, 1999, but the Volume 3 summary financial statements were not tabled until November 1999, eight months after the end of the year and 18 months after the budget approval. Accordingly, the Provincial Auditor has significant concerns that the Volume 1 financial

information is made public and discussed a full 2 months in advance of the much more complete reporting entity information. We agree that from an accountability and reporting perspective, this timing difference is inappropriate.

*We recommend that the Government issue full Generally Accepted Accounting Principles (GAAP) financial statements and report on compliance with the balanced budget legislation as a single plain language report.*

## **D. OUR PERSPECTIVE ON THE ISSUES**

In considering the financial reporting issues, we offer a number of comments for the Government's consideration.

### **1. UNDERSTAND THE DIFFERENCES BETWEEN FINANCIAL REPORTING AND FINANCIAL MANAGEMENT ACTIVITIES**

In our opinion, proper financial reporting and proper financial management are distinct activities and disciplines that should not necessarily use the same tools and metrics. For example, while all public companies pay significant attention to their GAAP based annual results, many other management accounting tools and measures are used to assess the impact of financial management decisions and the organization's stewardship of its resources.

### **2. SHIFT THE GOVERNMENT'S REPORTING FOCUS TO GAAP AND CONSOLIDATED REPORTING ENTITY**

Clearly from an annual external reporting point of view, it would be preferable if the Province was to move to a full GAAP basis of accounting. In effect, this would make the existing information in Volume 3 the single report that the Province puts forward as a presentation of its financial position.

This approach, combined with the advances in data collection and reporting that are being made by Manitoba Finance, will likely eliminate the Provincial Auditor's need to qualify his audit with respect to the issues that have historically been in dispute. As a result, the Provincial Auditor would be able to provide an Unqualified Auditor's Report stating that the financial statements have been prepared in accordance with Generally Accepted Accounting Principles for public sector organizations. Public understanding will benefit from this.

### **3. PROVIDE SPECIAL PURPOSE REPORTING ON THE OPERATING FUND**

The existence of *The Balanced Budget, Debt Retirement and Taxpayer Protection Act* essentially requires that Volume 1 remain – perhaps in a modified format and title and with different timing – within the Province's reporting structure. If nothing else, it is a special report on the Government's compliance with the terms of the balanced budget legislation.

The Provincial Auditor is concerned that the existing legislation is directed towards an inappropriate measure of the Government's stewardship of its resources, and that only the consolidated (Volume 3) view can provide this picture. With a change in the legislation, this concern can be resolved.

Manitoba Finance officials have indicated that they do not concur with the Provincial Auditor's view on the current legislation, because the consolidated results of the Province contained in the existing Volume 3 include the profits of all Government Enterprises (e.g., Workers Compensation Board, Manitoba Hydro, etc.) on a modified equity basis. And they fairly note that it is quite conceivable that the Government could authorize expenditures in excess of taxation and federal revenues and incur additional public debt to finance this Consolidated Fund deficit, while at the same time still showing a consolidated GAAP surplus because of the "offsetting" Government Enterprise profits. This would result, in effect, in a misrepresentation of the health of the Government's financial position since the Government Enterprise profits are not readily accessible as a revenue source to finance operations. Manitoba Finance, therefore, indicates that Volume 1 is a fairer representation of the Government's financial position.

To the extent that the purpose of the existing balanced budget legislation was to ensure that additional public debt is not incurred as a result of the expenditures authorized by the Legislature, this view of Manitoba Finance is a legitimate perspective. Furthermore, if the Government has committed itself to retiring general purpose debt, then the inclusion of a stipulated debt repayment amount as the determination of whether the Government has been a good steward of taxation, department and federal revenues is also appropriate.

We conclude that the Provincial Auditor's views are valid with respect to Volume 1. However, we also see value in the perspective of Manitoba Finance officials that the Volume 1 report be recast and issued as a special purpose report of the Government. If the situation respecting the use of Government Enterprise profits changes as a result of Government policy, then the argument for Volume 3 as the fundamental reporting document is enhanced considerably – that is, if the Government does begin to receive dividends from the Crown enterprises, then this information in Volume 3 will make this evident.

*We recommend that the Government amend the balanced budget legislation so that it is consistent with a clearly defined financial management framework and establish a new basis for determining compliance with legislation. Also, we recommend the Government give serious consideration to changing the name of the legislation so that it is not easily confused with terms used in the entire reporting entity (i.e., Volume 3) and so that it is clearly a measure of financial management, not a standard for financial reporting.*

*We recommend that the Legislature have the Provincial Auditor report annually on its compliance with this revised legislation. This would provide a second measure for evaluating the Government's performance in its stewardship of these revenues.*

#### 4. LEVER THE SAP REPORTING POTENTIAL

All entities, large and small, must have effective accounting and management systems to track their financial, economic and operational activities. Effective systems provide for ease of recording and summarization of activities and provide useful information for both internal and external decision-makers. One of the most important tools in producing this information is an effectively operating day-to-day accounting and management information system.

As part of the Better Methods initiative undertaken by the Province, an enterprise-wide resource production and planning system (ERP) utilizing the software of SAP has been implemented. A review of this implementation is the subject of our earlier report on major information technology initiatives.

A successfully implemented mature system provides the foundation for better decision making. First, the timeliness of information is critical in any entity and the Government is no exception. However, there is often a significant tradeoff between timeliness and accuracy (i.e., the faster the information is prepared, the less likely it will be reliable). Obviously, information becomes less useful as the time span between the occurrence of the event and the reporting of that information widens. A major benefit of an ERP system is that it allows for timely capture, summarizing and reporting of transactions in a reliable manner. As a result of an earlier decision, Manitoba now has the capacity to do this.

A second attribute of a sophisticated management information system is the level of detail and variety of manners in which information can be reported. One of the major enablers of this attribute is the ability of the system to capture information at a very detailed level which then allows for the subsequent reporting of such transactions in a variety of manners through different aggregations and summarization models. Again, an effectively implemented and operated ERP management information system will allow for current information to be reported from a variety of perspectives to assist in the decision making process.

The Government's investment in the new SAP system has been significant, and the value of this investment needs to be realized to the fullest extent possible. With SAP, the Government should be able to move to accrual accounting throughout the year and provide much more timely reporting at the end of each quarter and at year end. With more accurate information more quickly available to all levels of management, the Government will be positioned to greatly improve its reporting and management's ability to act quickly when action is needed.

We do not here provide a specific recommendation related to the SAP system, but address the issue in our separate report, **Information Technology Major Initiatives Review**.



## VI. FINAL CONCLUSIONS

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The financial position of the Province as identified in the Phase I work will be a key context-setting element as the Government shapes its financial management framework. For the Phase II work, Deloitte & Touche LLP will focus on advising the Province on an appropriate approach and process to guide its budget planning, expenditure decision-making and control, and performance management and accountability. The effectiveness of these internal processes will be a key success factor in helping the Government to ensure sound management of the Province's financial resources.

In this chapter, we highlight key conclusions and provide recommendations to the Government on next steps following receipt of this report.

### A. DEFINE AND IMPLEMENT A LONG-TERM STRATEGY

A key element in planning is the development of a fiscal framework and budget for the Province. We have concluded from our review that many of the financial challenges facing the Government cannot be resolved in one year, and that the traditional year-to-year focus on individual budgets will not likely contribute to achievement of meaningful results. A longer term planning framework is therefore advisable, particularly in setting a course to address significant financial issues over a manageable period of time.

#### *Determine the Approach to Balanced Budgets and the Fiscal Stabilization Fund*

The new Government has publicly committed itself to "balanced budgets" and will need to determine precisely what this means and how it is going to accomplish this objective.

The current balanced budget legislation is clearly the starting point. The legislation articulates the "balanced budget" concept, but is complicated by issues like the application of appropriate accounting principles. Fundamentally, the concept as included in the legislation is to refrain from borrowing money in the process of achieving the Government's current spending priorities.

The existing legislation is founded on three key assumptions:

- Debt repayment to retire the debt over a period of 30 years is good and desirable;
- Fiscal Stabilization Fund transfers can legitimately be used to supplement revenues in lean years; and,
- In good years, some current revenues of the Fiscal Stabilization Fund can be appropriately set aside for later use.



### ***Set Priorities and Build a Fiscal Policy Framework***

As a related issue, the Government also needs to articulate, at a Cabinet policy level and on an early basis, its highest spending priorities. In the process of reaching conclusions on priorities, the Government will need to answer the following questions:

- Which program areas over the long term are to be further enhanced and/receive more funding?
- Which program areas are to be reduced or eliminated entirely because they are lower priority?
- Which administrative practices are going to be streamlined?
- How important is debt repayment and precisely how will it be accomplished?
- What is role of Government Enterprises in providing regular revenue to the Consolidated Fund?
- What is the Government's philosophy regarding "rainy day funds" (i.e., the Fiscal Stabilization Fund)?
- How important is it to make progress on the long-standing pension funding and reporting issues?
- How important is it to integrate the cash flow of the Consolidated Fund with the repayment of debt incurred to support capital spending authority?

By answering these and other questions, the Government will build towards the establishment of a fiscal framework for the Province. By making this context transparent to the public, the Government will ensure an appropriate accountability mechanism and encourage public review of the established fiscal policy.

### ***Clarify the Performance Framework for Government***

It is incumbent on Government to provide for public accountability and reporting in such a way that the public can make its own judgements on the performance of the Government's stewardship over Consolidated Fund revenues. The Government needs to make clear to the public how it is achieving the Government's spending priorities without further increasing public debt.

Part of the "scorecard" picture will necessarily be related to the balanced budget legislation. However, this legislation could benefit from changes in order to help provide clarification of two important principles:

- What expenditures should be made out of current Consolidated Fund revenues?

- The role of Fiscal Stabilization Fund transfers in contributing to the stewardship of Consolidated Fund revenues.

## RECOMMENDATIONS FOR THE LONG-TERM STRATEGY

- We recommend that the Government establish a multi-year strategy for eliminating the structural deficit of the Province, for steadily reducing provincial debt, and for investment in critical infrastructure improvements, and that it report on progress annually to the Legislature and the public.
- We recommend that the Government immediately develop a plan to address the structural deficit in the Operating Fund, and begin implementation in 2000.
- We recommend that the Fiscal Stabilization Fund become solely a financial management tool as part of a multi-year financial management strategy. The Government should alter its financial reporting processes so that Fiscal Stabilization Fund transfers are no longer accounted for as revenues.
- We recommend that the Government formulate alternative but obligatory debt retirement priorities and strategies.
- We recommend that the Government adhere to the following principles when determining how to approach the pension issue:
  - Begin making annual payments at levels in excess of current "pay as you go" requirements. Some contribution annually toward the unfunded liability would be progress, however modest.
  - Begin addressing current service costs. For instance, consider funding current service costs of all new employees coming into government.
- We recommend that the Government review and assess the deferral of maintenance expenditures and develop a long term and steady course of action for addressing the problem, once the dimensions are clear.
- We recommend that as the Government looks at increasing revenue from selected Government Enterprises for transfer to the Operating Fund, assurances be provided that any such additional transfers will not compromise the ongoing financial strength or integrity of the Government Enterprises as they discharge their individual service delivery mandates.
- We recommend that the Government include in its financial management framework an approach to public sector compensation and employment that (a) aligns resources to approved programs, (b) rewards competence and productivity, and (c) addresses the issues of precedent, expectations, and the Government's capacity to deliver public services.

## B. FOCUS ON IMPROVING FINANCIAL MANAGEMENT

The financial management of the Province hinges on effective decision-making and follow-through, including strong financial controls. Given the level of variance from approved budgets in the current fiscal year and in previous years, we have concluded that improvements need to be made in this area, more so in some entities (e.g., in Manitoba Health) than in others. What needs to be determined is whether the variances are the result of deficiencies in planning and decision-making, definition and distribution of roles and responsibilities, day-to-day program management, financial controls, or a combination of these factors.

We believe that the Government needs to find answers to the following questions:

- **Planning and decision-making:** are the decisions consistent with the established expectations and program mandates?
- **Definition and distribution of roles and responsibilities:** are the right decisions delegated to the right positions?
- **Performance standards:** are standards in place that are consistent with the Governments' policy objectives?
- **Day-to-day program management:** is program performance monitored and managed effectively against these standards?
- **Financial controls:** how do potential variations from budget come about and what measures are taken and when to address the issues?

The new Government has an opportunity to address the defined financial management issues as a matter of priority, and has already moved in a number of areas (e.g., Health) to determine what actions should be taken. The Government should act quickly.

## RECOMMENDATIONS FOR IMPROVING FINANCIAL MANAGEMENT

- We recommend that the Government alter its financial reporting processes so that Fiscal Stabilization Fund transfers are no longer accounted for as revenues. We further recommend that the Government use the Fiscal Stabilization Fund strictly as a financial management tool in the context of a multi-year financial management strategy.
- We recommend that the Government focus immediate attention on plans for the more effective management of the health care budget.
- We recommend that health capital spending adopt a more long-term view with respect to both anticipated capital needs and the amount of future operating funding committed by current capital approvals.

- We recommend that to the degree possible and appropriate, the Government consider implementing stronger financial management measures to influence the results for the 1999/2000 year.

Additional consideration will be given to financial management issues in our Phase II report, including the recommendations noted in section D, *Incorporate Expenditure Management Recommendations into Phase II Review*.

## C. MAKE FINANCIAL REPORTING TRANSPARENT

The Province's reporting has improved from year to year, as recognized by the Provincial Auditor in recent reports. However, we note three particular outstanding issues related to the Province's reporting on its financial situation:

- ***The current reporting is not timely.*** The time lag between completion of a fiscal year and reporting on the results (Public Accounts) should be much shorter.
- ***The current reporting is overly complex.*** The basis of reporting (the published Public Accounts) should be aligned with the basis of planning (the published Estimates) so that the performance compared to plan is both transparent and easy to understand. As recommended by the Provincial Auditor, the Government should prepare a summary budget based on the budgets for all entities based on the same accounting principles used for the summary financial statements. Also, summary budget amounts should be disclosed in the summary financial statements for comparison with actual results.
- ***The format for performance reporting is unwieldy and unclear.*** The Government should consider a new form of reporting that is more descriptive, more easily read, and explanatory. As recommended by the Provincial Auditor, this may be framed as an annual report to enhance the Public Accounts, and would include: high-level summarized information, commentary on significant budget fluctuations, and long-term graphical trend analysis of government debt, taxation and program levels.

***The Government should act quickly.*** The new Government has an opportunity to address the outstanding reporting issues as a matter of priority, and to establish a new reporting foundation in keeping with transparent and clear accountability to the Legislative Assembly and the public.

## RECOMMENDATIONS FOR MAKING FINANCIAL REPORTING TRANSPARENT

- We recommend that the Government now fully adopt the financial reporting objectives articulated by the Public Sector Accounting Board of the CICA.
- We recommend that the Government move now to fully adopting Generally Accepted Accounting Principles for public sector bodies in its presentation of the financial position and results of the Province. This will give Manitobans a more accurate and consistent accounting of the Province's financial situation.



- We recommend that the Government indicate that for all external financial reporting of its financial position and results of operations, the consolidated government reporting entity, using full application of Generally Accepted Accounting Principles (GAAP), will be the basis for financial reporting.
- We recommend that the Government not characterize as revenue or expenditure transactions inter-fund transfers that do not represent actual economic activities of the Government.
- We recommend that the Government consider a new form of full, true and plain reporting that is more descriptive and explanatory, such as an annual report that includes:
  - the consolidated financial position and results of the consolidated reporting entity;
  - discussion and analysis of the financial statements, with commentary on the financial management strategies employed during the year; and,
  - information on the Legislature's accountability for the taxation, departmental and federal transfer revenues and expenditure appropriations that are under its authority.
- We recommend that the Government present the consolidated financial position (i.e., Volume 3) as the primary picture of the Province's financial position.
- We recommend that the Government change the presentation of the existing Volume 3 so that the Government's financial statement reflecting the entire government reporting entity also shows annual performance relative to the Government's stewardship of taxation, departmental and federal revenues, debt management and expenditure control.
- We recommend that the Government align the basis of reporting with the basis of planning so that the performance compared to plan is both transparent and easier to understand.
- We recommend that the Government determine how the fiscal principles inherent in the current balanced budget legislation compare with its own long-term fiscal policy objectives.
- We recommend that the Government then amend the balanced budget legislation so that it is consistent with a clearly defined financial management framework and establish a basis for determining compliance with legislation. Also, we recommend the Government give serious consideration to changing the name of the legislation so that it is not easily confused with terms used in the entire reporting entity (i.e., Volume 3) and so that it is clearly a measure of financial management, not a standard for financial reporting.
- We recommend that the Legislature have the Provincial Auditor report annually on compliance with this revised legislation. This would provide a second measure for evaluating the Government's performance in its stewardship of these revenues.
- We recommend that the Government issue full Generally Accepted Accounting Principles (GAAP) financial statements and report on compliance with the revised balanced budget legislation as a single plain language report.
- We recommend that the Government report on results on a more timely basis.



- We recommend that to the degree possible and appropriate, the Government consider implementing recommended changes in financial reporting for the 1999/2000 year.

## **D. INCORPORATE EXPENDITURE MANAGEMENT RECOMMENDATIONS INTO PHASE II REVIEW**

We have reached a number of conclusions in Phase I that should be addressed in the context of our Phase II work on the expenditure management process. The key recommendations that relate to the Government's expenditure management process are as follows:

- We recommend that the Government develop an overall multi-year framework to govern the capital budgeting process. This process should integrate the capital requirements of all departments. The framework should consider the source of funding for capital purchases, the required debt service payments on monies borrowed to fund the capital spending and the Government's ability to make the required debt service payments from cash flow generated by the operations of the Province.
- We recommend that the Government confirm a clear multi-year governance framework for the health care system, including the clarification of management and reporting roles and responsibilities between Manitoba Health and health care providers in the Regional Health Authorities. This will require better and more timely financial information on actual expenditures and costs of services.
- We recommend that the Government assess and enhance the governance framework for Crown organizations with the objective of establishing for Crown organizations – and for the departments that fund them – an understanding and commitment to financial management principles and clearly defined roles and responsibilities.
- We recommend that the Government adopt both short-term and long-term approaches to dealing with the need to improve management information systems related to health expenditures.
- We recommend that the Government actively undertake a more focused effort to realize improved service delivery capacity and cost control in its ongoing technology projects.
- We recommend that the Government assess the appropriateness of internal controls, particularly over purchases and payments, in the new SAP environment.
- We recommend that the Government act to ensure effective financial management practices, including planning and decision-making, definition and distribution of roles and responsibilities, day-to-day program management, and financial controls.

- We recommend that the Government actively pursue further opportunities for the enhancement of public sector productivity by using alternative service delivery and other means.

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# VOLUME

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# VOLUME

# 2

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# ***Province of Manitoba Financial Review***

## ***Phase I Report***

*Prepared for Hon. G. Selinger  
Minister of Finance  
Government of Manitoba*

*February 8, 2000*

## ***Volume 2 - Appendices***

**APPENDIX A**

**ENTITIES SUBJECT TO FINANCIAL REVIEW**



## APPENDIX A

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### *Departments*

- Aboriginal and Northern Affairs
- Agriculture and Food
- Civil Service Commission
- Conservation
- Consumer and Corporate Affairs
- Culture, Heritage and Tourism
- Education and Training
- Family Services and Housing
- Finance
- Health
- Highways and Government Services
- Industry, Trade and Mines
- Intergovernmental Affairs
- Justice
- Labour

### *Government Enterprises*

- Manitoba Hydro-Electric Board
- Manitoba Liquor Control Commission
- Manitoba Lotteries Corporation
- Manitoba Public Insurance Corporation
- Workers' Compensation Board

### *Crown Organizations*

- Child and Family Services Agencies
- Communities Economic Development Fund
- Council on Post-Secondary Education
- Criminal Injuries Compensation Board (renamed Compensation for Victims of Crime Program)
- Economic Innovation and Technology Council
- Government Information Systems Management Organization (Man) Inc.
- Health Information Services of Manitoba
- Legal Aid Services Society
- Manitoba Agriculture Credit Corporation
- Manitoba Cancer Treatment and Research Foundation (since renamed Cancer Care Manitoba)
- Manitoba Crop Insurance Corporation
- Manitoba Development Corporation
- Manitoba Health Services Insurance Plan
- Manitoba Housing and Renewal Corporation
- Manitoba Trade and Investment Corporation
- Manitoba Water Services Board
- Public Schools Finance Board
- Special Operating Agencies' Financing Authority

### *Special Funds*

- Debt Retirement Fund
- Fiscal Stabilization Fund
- Mining Community Reserve

**APPENDIX B**

**INFORMATION REQUESTED FROM ENTITIES**

## APPENDIX B

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Prior to the commencement of the financial review, the Financial Review Steering Committee forwarded a request for information to each Deputy Minister and to the senior management officer of each government enterprise, crown organization and special fund. Each entity was asked to provide the following:

- Annual reports for the 1997/98 and 1998/99 fiscal years.
- Projected actual expenditures to March 31, 2000 vs. approved estimates for the 1999/2000 years.
- Existing or new obligations for 2000/2001 and 2001/2002.
- Financial assets, requiring valuation allowances, where carrying values exceed actual market value.
- Contingent liabilities in excess of \$10 million that could affect provincial obligations.
- "Lurking expenditures" that would materially impact the entity over the 2000/2001 and 2001/2002 fiscal years.
- Forecasts of the revenues/recoveries to be generated by the entity over the next two years.
- Any other events between 1999/2000 and 2001/2002 that could materially affect provincial revenues, obligations or credit worthiness.

## **APPENDIX C**

### **DOCUMENTS AND REFERENCE MATERIALS**

## APPENDIX C

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### SECTION A – SPECIFIC INFORMATION REVIEWED ON INDIVIDUAL ENTITIES

#### 1. Aboriginal and Northern Affairs

- a) Response of Aboriginal and Northern Affairs submitted to Deloitte & Touche LLP in response to the October 19, 1999 request for information sent by the Chairman of the Financial Review Steering Committee, (response dated November 3, 1999).
- b) Annual report for 1998-1999 Northern Affairs.
- c) Estimate of expenditures to March 31, 2000 as prepared by the Department.
- d) Annual report 1997-1998 – Northern Affairs.
- e) Supplemental information on expenditures to March 31, 2000 prepared by the Department, December 6, 1999.
- f) Status notes prepared by the Treasury Board Secretariat dated October 14, 1999.
- g) Supplementary information for legislative review 1999-2000 departmental expenditure estimates.

#### 2. Communities Economic Development Fund

- a) Response of Communities Economic Development Fund submitted to Deloitte & Touche LLP in response to the October 19, 1999 request for information sent by the Chairman of the Financial Review Steering Committee, (response dated November 2, 1999).
- b) 1999 Audited Financial Statements.
- c) 1998 Annual Report.

#### 3. Agriculture and Food

- a) Response of the Department of Agriculture & Food submitted to Deloitte & Touche LLP in response to the October 19, 1999 request for information sent by the Chairman of the Financial Review Steering Committee, (response dated November 3, 1999).
- b) 1999 Manitoba Estimates of Revenue.
- c) 1999 Manitoba Estimate of Expenditure.
- d) 1998/1999 Financial Statement for the Consolidated Fund – Volume 1.
- e) 1997/1998 Financial Statement for the Consolidated Fund – Volume 1.
- f) Expenditure and Revenue Forecasts as at September 30, 1999.
- g) Treasury Board Secretariat, Departmental Status Notes, October 7, 1999.
- h) 1997-98 Department of Agriculture Annual Report.
- i) 1998-99 Department of Agriculture Annual Report.



4. Manitoba Agricultural Credit Corp.

- a) Response of Department of Agriculture submitted to Deloitte & Touche LLP in response to the October 19, 1999 request for information sent by the Chairman of the Financial Review Steering Committee, (response dated November 3, 1999).
- b) 1998/1999 Annual Report.

5. Manitoba Crop Insurance Corp.

- a) Response of Manitoba Crop Insurance Corporation submitted to Deloitte & Touche LLP in response to the October 19, 1999 request for information sent by the Chairman of the Financial Review Steering Committee, (response dated October 1999).
- b) March 31, 1999 Financial Statements.
- c) March 31, 1998 Annual Report.

6. Civil Service Commission

- a) Response of the Department of Civil Service Commission submitted to Deloitte & Touche LLP in response to the October 19, 1999 request for information sent by the Chairman of the Financial Review Steering Committee, (response dated November 2, 1999).

7. Conservation

- a) Response of the Department of Conservation submitted to Deloitte & Touche LLP in response to the October 19, 1999 request for information sent by the Chairman of the Financial Review Steering Committee, (response dated November 3, 1999).
- b) 1999/2000 Departmental Variance Explanations.
- c) The Manitoba Habitat Heritage Corporation 1998/1999 Financial Statements.
- d) Venture Manitoba September 30, 1999 Financial Statements.
- e) 1999 Manitoba Estimates of Revenue.
- f) 1999 Manitoba Estimate of Expenditure.
- g) 1998/1999 Financial Statement for the Consolidated Fund – Volume 1.
- h) 1997/1998 Financial Statement for the Consolidated Fund – Volume 1.
- i) Flood Proofing Agreement – Future Year Forecasts – December 16, 1999.
- j) Annual Report, 1998-99, Department of Natural Resources.
- k) Annual Report, 1998-99, Department of the Environment.
- l) Treasury Board Departmental Status Notes, Natural Resources.
- m) Treasury Board Departmental Status Notes, Environment.

8. Consumer and Corporate Affairs

- a) Response of Department of Consumer and Corporate Affairs submitted to Deloitte & Touche LLP in response to the October 19, 1999 request for information sent by the Chairman of the Financial Review Steering Committee, dated November 2, 1999.
- b) 1997/98 and 1998/99 annual reports.
- c) 1999/2000 provincial estimates of revenue and expenditures.

- d) Treasury Board Secretariat, Departmental Status notes, dated October 8, 1999.
- e) Quarter 1 actual vs. forecast (April 1 – June 30, 1999).
- f) Supplementary information for Legislative Review – 1999-2000 Expenditure Estimates.

#### 9. Culture, Heritage and Tourism

- a) Response of Department of Culture, Heritage and Tourism submitted to Deloitte & Touche LLP in response to the October 19, 1999 request for information sent by the Chairman of the Financial Review Steering Committee, (response dated November 3, 1999).
- b) 1999/2000 Forecast – Operating Expenses.
- c) 1999/2000 Revenue Forecast.
- d) Budget Forecast for the Period 1999/2000 to 2001/2002.
- e) October 12, 1999 Memo Re: Transfer of Tourism.
- f) October 12, 1999 Memo Re: Transfer of Citizenship & Multiculturalism Division to Department of Labour.
- g) Treasury Board Secretariat, Status Notes – Department of Culture, Heritage and Citizenship, October 13, 1999.
- h) 1999 Manitoba Estimates of Revenue.
- i) 1999 Manitoba Estimates of Expenditures.
- j) 1998/1999 Annual Report – Culture, Heritage and Citizenship.

#### 10. Education and Training

- a) Response of Public Schools Finance Board submitted to Deloitte & Touche LLP in response to the October 19, 1999 request for information sent by the Chairman of the Financial Review Steering Committee, (response dated November 2, 1999, updated November 8, 1999).
- b) The Public Schools Finance Board, Key strategic issues October 22, 1999.
- c) The Public Schools Finance Board, financial statements year ended June 30, 1997.
- d) The Public Schools Finance Board, capital support program description 1998 edition.
- e) The Public Schools Finance Board, annual five year capital plan/budgets cycle information.
- f) The Public Schools Finance Board, annual report the year ending June 30, 1998.
- g) The Public Schools Finance Board, capital budget overview for 1999/2000.

#### 11. Council on Post Secondary Education

- a) Response of Council on Post Secondary Education submitted to Deloitte & Touche LLP in response to the October 19, 1999 request for information sent by the Chairman of the Financial Review Steering Committee, (response dated November 3, 1999).
- b) The summary of expenditure increases for 1999/2000, 2000/2001 and 2001/2002.
- c) 1999/2000 projections by appropriation as of September 30, 1999.
- d) Projections for 2000/2001 and 2001/2002 by appropriation.
- e) Internally prepared financial statements as at September 30, 1999.
- f) Annual report 1997/1998 Council on Post Secondary Education.
- g) Annual report 1998/1999 Council on Post Secondary Education.

## 12. Public Schools Finance Board

- a) Response of Public Schools Finance Board submitted to Deloitte & Touche LLP in response to the October 19, 1999 request for information sent by the Chairman of the Financial Review Steering Committee, (response dated November 2, 1999, updated November 8, 1999).
- b) The Public Schools Finance Board, Key strategic issues October 22, 1999.
- c) The Public Schools Finance Board, financial statements year ended June 30, 1997.
- d) The Public Schools Finance Board, capital support program description 1998 edition.
- e) The Public Schools Finance Board, annual five year capital plan/budgets cycle information.
- f) The Public Schools Finance Board, annual report the year ending June 30, 1998.
- g) The Public Schools Finance Board, capital budget overview for 1999/2000.

## 13. "Family Services" Component, including Child and Family Services Agencies of Family Services and Housing

- a) Response of the Department of Family Services and Housing submitted to Deloitte & Touche LLP in response to the October 19, 1999 request for information sent by the Chairman of the Financial Review Steering Committee, (response dated November 3 and November 5, 1999).
- b) 1998/1999 Manitoba Family Services Annual Report.
- c) 1997/1998 Manitoba Family Services Annual Report.
- d) 1999/2000 Manitoba Estimates of Revenue.
- e) 1999/2000 Manitoba Estimate of Expenditure.
- f) 1998/1999 Financial Statement for the Consolidated Fund – Volume 1.
- g) 1997/1998 Financial Statement for the Consolidated Fund – Volume 1.
- h) Treasury Board Secretariat Departmental Status Notes, October 13, 1999.
- i) 1998/1999 Winnipeg Child and Family Services Annual Report.
- j) 1997/1998 Winnipeg Child and Family Services Annual Report.
- k) August 31, 1999 and September 30, 1999 Winnipeg Child and Family Service's Financial Statements.
- l) 1998/1999 Child and Family Services of Central Manitoba Annual Report.
- m) 1998/1999 Child and Family Services of Western Manitoba.
- n) Supplementary Information for Legislative Review 1999/2000.

## 14. "Housing" Component and Manitoba Housing Rehabilitation Corp. (Contractor Prepared)

- a) Response of Housing submitted to Deloitte & Touche LLP in response to the October 19, 1999 request for information sent by the Chairman of the Financial Review Steering Committee, (response dated November 3, 1999).
- b) 1997-1998 Annual Report for Housing, The Manitoba Housing and Renewal Corporation, and The Manitoba Housing Authority.
- c) 1998-1999 Annual Report for Housing, The Manitoba Housing and Renewal Corporation, and The Manitoba Housing Authority.
- d) Supplementary Information for Legislative Review : 1999-2000 Departmental Expenditure Estimates, Manitoba Housing.

- e) 1997/98 details of operating fund revenue and expenditures (estimate and actual)
- f) 1998/99 details of operating fund revenue and expenditures (estimate and actual).
- g) 1999/00 details of operating fund revenue and expenditures (estimate only).
- h) Expenditure Variance Explanations June 30, 1999.
- i) 1999/00 projected fiscal position by expenditure category as at September 30, 1999.
- j) 1999/00 projected fiscal position by expenditure category as at October 31, 1999.
- k) 2000/01 expenditure projections by division (including details for potential increases).
- l) 2001/02 expenditure projections by division.
- m) Social Housing Agreement, September 3, 1998.

#### 15. Finance

- a) Status notes prepared by Treasury Board Secretariat dated October 13, 1999.
- b) Supplementary information for legislative review 1999/2000 departmental expenditure estimate.
- c) Supplementary information for legislative review 1999/2000 revenue estimate.
- d) Treasury Board document – revenue from federal payments, income taxes and major taxes – development of current revenue projections.
- e) 2000/01 revenue projections.
- f) Public debt assumptions for 1999/2000 and 2000/2001 dated September 22, 1999.
- g) Department of Finance financial report for the period ended June 30, 1999.
- h) Manitoba Finance Policy Pressures briefing September 1999.
- i) Manitoba Finance Brief of Deputy Minister October 5, 1999.

#### 16. Government Information Systems Management Organization Inc.

- a) Response of Government Information Systems Management Organization (Man.) Inc. submitted to Deloitte & Touche LLP in response to the October 19, 1999 request for information sent by the Chairman of the Financial Review Steering Committee, (response dated October 1999).
- b) Draft annual report of Government Information Systems Management Organization (Man.) Inc. for the year ended March 31, 1999.
- c) Final annual report Government Information Systems Management Organization (Man.) Inc. for the year ended March 31, 1999.

#### 17. Special Operating Agencies Financing Authority

- a) Response of the Special Operating Agencies Financing Authority submitted to Deloitte & Touche LLP in response to the October 19, 1999 request for information sent by the Chairman of the Financial Review Steering Committee, (response dated October 27, 1999).
- b) Briefing paper, Manitoba's Special Operating Agencies: Transforming Service Delivery.
- c) Summary financial results 1997/1998 to 2001/2002.
- d) September 30, 1999 financial reports of all Special Operating Agencies.
- e) Annual report 1998-1999 Special Operating Agencies Finance Authority.
- f) Annual report 1997-1998 Special Operating Agencies Finance Authority.
- g) Business plans for 1999/2000 for each of the Special Operating Agencies.



## 18. Health and Health Services Insurance Fund

- a) Response of Department of Health submitted to Deloitte & Touche LLP in response to the October 19, 1999 request for information sent by the Chairman of the Financial Review Steering Committee, (response dated November 3, 1999).
- b) Status Notes Department of Health Overview received from Treasury Board, October 14, 1999.
- c) Treasury Board Submission Briefing Note regarding Canadian Blood Services.
- d) Manitoba Health Provincial Drug Programs worksheet (December 8, 1999).
- e) Department of Health Internal Programs and Operations letter of November 3, 1999.
- f) Interest Arbitration Award dated August 3, 1999.
- g) Analysis of Committed and Potential Obligations of Manitoba Health for Medical Remuneration.
- h) Excerpt from Briefing Note FFS Arbitration Award (Paul Teskey).
- i) Department of Health Internal Programs and Operations letter of November 3, 1999.
- j) Projected Salary Increases Worksheet (MNU).
- k) Summary Worksheet of MNU/MNU Related Contract Costs.
- l) Highlights of MNU Collective Agreement.
- m) Statement of Claim issued by Manitoba Medical Association against the Province of Manitoba.
- n) Statement of Defence filed by the Province of Manitoba.
- o) Affidavit of Jean Alfred Laplume, Executive Director of the Manitoba Medical Association.
- p) Annual Report 1998/1999, Department of Health.

## 19. Health Information Systems Management (HISM) Inc.

- a) Financial statements of Health Information Services of Manitoba Corporation (HISM) for the year ended March 31, 1998.
- b) Annual report of HISM for the year ended March 31, 1999.
- c) HISM Corporation recap of deferred development costs including recommended write-offs March 31, 1999.
- d) HISM recommended write-off schedule November 18, 1999.
- e) Contract between the Province of Manitoba and Smart Health Inc. dated October 24, 1995.
- f) Internal audit report on Smart Health Agreement, Manitoba Health for the period ended November 25, 1998.

## 20. Manitoba Cancer Treatment and Research Foundation

- a) Response of Manitoba Cancer Treatment and Research Foundation submitted to Deloitte & Touche LLP in response to the October 19, 1999 request for information sent by the Chairman of the Financial Review Steering Committee, (response dated November 3, 1999).
- b) Forecast of expenditures for the 1999/2000 year.
- c) Financial statements of the Manitoba Cancer Treatment and Research Foundation for each of the years ended March 31, 1998 and 1999.



- d) Schedule A to the Memorandum of Understanding for the MCTRF Redevelopment Project.
- e) MCTRF preliminary budgets for 2000/2001 and 2001/2002.

## 21. Highways & Government Services

- a) Response of Manitoba Government Services submitted by Deloitte & Touche LLP in response to the October 19, 1999 request for information sent by the Chairman of the Financial Review Steering Committee, (response dated November 3, 1999).
- b) Response of Manitoba Highways submitted to Deloitte & Touche LLP in response to the October 19, 1999 request for information sent by the Chairman of the Financial Review Steering Committee, (response dated November 2, 1999).
- c) Annual report, 1998/1999 Highways and Transportation.
- d) Annual report, 1997/1998 Highways and Transportation.
- e) Manitoba Highways, forecast of operating expenditures to March 31, 2000.
- f) Manitoba Government Services, preliminary estimates of 2000/2001 expenditures.
- g) Manitoba Government Services, depreciation schedule for the 1999/2000 year.
- h) Manitoba Government Services, depreciation schedule for the 2000/2001 year.
- i) Manitoba Government Services, depreciation schedule for the 2001/2002 year.
- j) Manitoba Government Services, Property Management Division future lease commitments beyond March 31, 2000.
- k) Treasury Board Secretariat, status notes on Department of Highways and Transportation dated October 13, 1999.
- l) Treasury Board Secretariat, status notes, capital investment, Department of Government Services prepared October 8, 1999.
- m) Treasury Board Secretariat, status notes Department of Government Services dated October 13, 1999.
- n) Supplementary information for legislative review, 1999/2000 departmental expenditure estimates, Manitoba Highways and Transportation.
- o) Supplementary information for legislative review, 1999/2000 departmental expenditure estimates, Manitoba Government Services and emergency expenditures.

## 22. Industry, Trade and Mines

- a) Response of Industry Trade and Mines submitted to Deloitte & Touche LLP in response to the October 19, 1999 request for information sent by the Chairman of the Financial Review Steering Committee, (response dated October 27, 1999).
- b) Two updates to the Department of Industry, Trade and Mines response up to and on November 12, 1999.
- c) Annual report 1998-1999 Manitoba Industry Trade and Tourism.
- d) Annual report 1997-1998 Manitoba Industry Trade and Tourism.
- e) Annual report 1998-1999 Manitoba Energy and Mines.
- f) Annual report 1997-1998 Manitoba Energy and Mines.
- g) Industry Trade and Mines financial review projected expenditures for the year 1999/2000.
- h) Faneuil Group report to the Province of Manitoba by Ernst & Young October 1999.

**23. Manitoba Development Corporation and Manitoba Trading and Investment Corporation**

- a) Response of Manitoba Development Corporation and Manitoba Trade and Investment Corporation submitted to Deloitte & Touche LLP in response to the October 19, 1999 request for information sent by the Chairman of the Financial Review Steering Committee, (response dated October 1999).
- b) Response of the Department of Industry, Trade and Mines submitted to Deloitte & Touche LLP in response to the October 19, 1999 request for information sent by the Chair of the Financial Review Steering Committee response dated October 27, 1999.
- c) Manitoba Development Corporation financial statements for the year ended March 31, 1998.
- d) Manitoba Development Corporation financial statements for the year ended March 31, 1999.
- e) Financial statements of Manitoba Trade and Investment Corporation for the year ended March 31, 1998.
- f) Financial statements of Manitoba Trade and Investment Corporation for the year ended March 31, 1999.
- g) Manitoba Development Corporation MIOP loan provision updated to October 31, 1999, estimated to March 31, 2000.

**24. Economic Innovation and Technology Council**

- a) Response of Economic Innovation and Technology Council submitted to Deloitte & Touche LLP in response to the October 19, 1999 request for information sent by the Chairman of the Financial Review Steering Committee, (response dated November 2, 1999).
- b) EITC Financial Statements for the six months ended September 30, 1999.
- c) Economic Innovation and Technology Council 1999/2000 Year-End Forecast-Operation.
- f) 1999/2000 Year-End Forecast for Economic Innovation Technology Fund.
- e) EITC Issues 2000/2001 and 2001/2002.
- f) Manitoba Innovations Fund 1999/2000 Year-End Forecast.
- g) EITC Annual Report 1997/1998.
- h) EITC Annual Report 1998/1999.

**25. Intergovernmental Affairs**

- a) Response of Department of Intergovernmental Affairs submitted to Deloitte & Touche LLP in response to the October 19, 1999 request for information sent by the Chairman of the Financial Review Steering Committee, (response dated November 2, 1999).
- b) Summary of revenue projections prepared by the Department of Intergovernmental Affairs for the years ended March 31, 2000, 2001, 2002.
- c) Projected expenditures for the Department of Intergovernmental Affairs, as prepared by the Department, for the years ended March 31, 2000, 2001 and 2002.
- d) Status notes prepared by the Treasury Board Secretariat on the Department of Rural Development dated October 14, 1999.

- e) Status notes prepared by the Treasury Board Secretariat for the Department of Urban Affairs dated October 7, 1999.
- f) Supplementary information for legislative review, 1999-2000 departmental expenditure estimates Departments of Urban Affairs and Rural Development.
- g) Annual reports 1998-1999, Urban Affairs and Rural Development.
- h) Annual report 1998-1999, enabling and other appropriations including urban economic development initiatives.

#### 26. Manitoba Water Services Board

- a) Response of Manitoba Water Services Board submitted to Deloitte & Touche LLP in response to the October 19, 1999 request for information sent by the Chairman of the Financial Review Steering Committee, (response dated November 2, 1999).
- b) The Manitoba Water Services Board estimated actual expenditures to March 31, 2000.
- c) Manitoba Water Services Board's estimate of expenditure 2000/2001 to 2002/2003.
- d) Manitoba Water Services Board water treatment plants analysis of funds retained March 31, 1999 to March 31, 2001.
- e) Annual report 1997-98 Manitoba Water Services Board.
- f) Annual report 1998-99 Manitoba Water Services Board.

#### 27. Justice

- a) Response of the Department of Justice submitted to Deloitte & Touche LLP in response to the October 19, 1999 request for information sent by the Chairman of the Financial Review Steering Committee, dated November 3, 1999.
- b) 1999/2000 Forecast of Expenditures, dated November 3, 1999.
- c) 1999/2000 Forecast of Revenues, dated November 3, 1999.
- d) 1999/2000 Manitoba Estimates of Expenditure.
- e) 1998/1999 Financial Statements for the Consolidated Fund – Volume 1.
- f) 1997/1998 Financial Statements for the Consolidated Fund – Volume 1.
- g) Treasury Board Secretariat, Departmental Status notes, October 14, 1999.
- h) 1998-1999 Annual Report, Department of Justice.

#### 28. Legal Aid

- a) Response of Legal Aid Manitoba submitted to Deloitte & Touche LLP in response to the October 19, 1999 request for information sent by the Chairman of the Financial Review Steering Committee, (response dated November 3, 1999).
- b) 1997/98 and 1998/99 Annual Reports.
- c) Spreadsheet covering 1998/99 actuals and projections for 1999/2000 to 2002/2003.
- d) Copy of Task Force Report Sub-committee.

#### 29. Criminal Injuries Compensation Board

- a) Financial statements – March 31, 1998 – Criminal Injuries Compensation Board, submitted to Deloitte & Touche LLP in response to the October 19, 1999 request for information sent by the Chairman of the Financial Review Steering Committee.

### 30. Labour

- a) Response of the Department of Labour submitted to Deloitte & Touche LLP in response to the October 19, 1999 request for information sent by the Chairman of the Financial Review Steering Committee, (response dated November 1, 1999).
- b) 1999/2000 forecast of operating expenses for the Department, prepared by the Department of Labour.
- c) 1999/2000 revenue forecast prepared by the Department.
- d) Supplementary information for legislative review, 1999-2000 revenue estimates.
- e) Supplementary information for legislative review, 1999-2000 departmental expenditure estimate.
- f) Annual report 1998-1999, Department of Labour.
- g) Treasury Board Secretariat status notes on the Department of Labour, prepared October 14, 1999.

### 31. Fiscal Stabilization Fund and Debt Retirement Fund

- a) Response of the Fiscal Stabilization Fund submitted to Deloitte & Touche LLP in response to the October 19, 1999 request for information sent by the Chairman of the Financial Review Steering Committee).
- b) 1999/2000 Budget Fiscal Stabilization Fund.
- c) Fiscal Stabilization Fund Fact Sheet.
- d) Fiscal Stabilization Fund Historical Transactions 1988/89 to 1999/2000.
- e) Annual Report 1988-1999 Debt Retirement Fund.
- f) Annual Report 1998-1999 Fiscal Stabilization Fund.
- g) 1995 Budget Paper A – Balanced Budget, Debt Repayment, and Taxpayer Protection.
- h) Financial Administration Act – Chapter F55.
- i) Summary Manitoba's Balanced Budget, Debt Repayment, and Taxpayer Protection Act.
- j) Chronology of Provincial Auditors, Comments on the Fiscal Stabilization Fund dated October 18, 1999.
- k) Report of the Provincial Auditor on the Consolidated Fund Financial Statements of the Government of the Province of Manitoba for the years 1989 – 1992.
- l) The Fiscal Stabilization Fund Act, 1999.
- m) Bill 46 – The Appropriation Act, 1999.
- n) Report of the Provincial Auditors – March 31, 1998.

### 32. Mining Community Reserve Fund

- a) Response of the Department of Finance for the Mining Community Reserve Fund submitted to Deloitte & Touche LLP in response to the October 19, 1999 request for information sent by the Chairman of the Financial Review Steering Committee, (response dated December 10, 1999).
- b) Excerpts Mining Tax Act.
- c) Statement of Receipts and Disbursements March 31, 1995 to September 30, 1999 Mining Community Reserve.
- d) Mining Community Reserve Status Report September 30, 1999.
- e) Mining Community Reserve Fund Projected Cash Flow to 2002/2003.



### 33. Manitoba Liquor Control Commission

- a) Response of Manitoba Liquor Control Commission submitted to Deloitte & Touche LLP in response to the November 2, 1999 request for information sent by the Chairman of the Financial Review Steering Committee, (response dated November 3, 1999).
- b) The annual reports of the Entity for the years ended March 31, 1999 and 1998.
- c) Internal financial statements of the Entity for the six months ended September 30, 1999.
- d) Budget information for the 2000 fiscal year.
- e) Capital budget information relating the 2000, 2001 and 2002 fiscal years.
- f) Projected net profit figures from 2000 to 2005.

### 34. Workers Compensation Board

- a) The Annual Report of Workers Compensation Board for the fiscal year ended December 31, 1998.
- b) The 1999 – 2003 Five Year Plan of the Workers Compensation Board.

### 35. Manitoba Public Insurance Corporation

- a) Response of Manitoba Public Insurance submitted to Deloitte & Touche LLP in response to the October 19, 1999 request for information sent by the Chairman of the Financial Review Steering Committee, (response dated November 5, 1999).
- b) Five year financial plan including revisions relating to the additional 1% rate reduction ordered by the Public Utilities Board.
- c) Unaudited financial statements for the seven months ended September 30, 1999.
- d) 1999/2000 Fiscal Year Forecast.
- e) Schedule detailing unrealized gains on investments (as at September 30, 1999).
- f) Annual reports for the 1998/99 and 1997/98 fiscal years.
- g) The Public Utilities Order No. 177/99.
- h) A Statement of Basic Insurance Rate Stabilization Reserve Levels.
- i) A 5 year Capital Budget report.
- j) An analysis of actual capital expenditures for the 6 months ended August 31, 1999.
- k) An updated 5-year plan which includes updated actuals to November 30, 1999.
- l) A revised schedule detailing unrealized gains on investments (as at November 30, 1999).
- m) The December 16, 1999 financial forecast of the 1999/2000 fiscal year.

### 36. Manitoba Hydro

- a) Response of Manitoba Hydro submitted to Deloitte & Touche LLP in response to the October 19, 1999 request for information sent by the Chairman of the Financial Review Steering Committee, (response dated November 3, 1999).
- b) Annual Report of the Manitoba Hydro-Electric Board for the fiscal years ended March 31, 1999 and March 31, 1998.
- c) Internally prepared financial statements of Manitoba Hydro for the six months ended September 30, 1999.
- d) Capital Expenditure forecast for each year up to and including 2010.



- e) Financial information relating to Centra Gas Manitoba including: audited financial statements for the year ended December 31, 1998; Statement on Income for the two months ended September 30, 1999; Balance Sheet as at August 31, 1999; and the ten year financial forecasts.
- e) A summary of payments made to the Provincial Government by Manitoba Hydro from 1982 to 2000.
- f) A document entitled "Manitoba Hydro Corporate Overview" (October 1999).
- g) Integrated financial forecasts for Manitoba Hydro for 1999/00 to 2009/10.
- h) Manitoba Hydro's Consolidated Integrated Financial Forecast – 1999/00 – 2009/10.
- i) Centra Gas Manitoba's Ten Year Financial Forecast Baseline – 1999/00 – 2009/10.

**37. Manitoba Lotteries Corporation (Contractor Prepared)**

- a) Response of Manitoba Lotteries Corporation submitted to Deloitte & Touche LLP in response to the October 19, 1999 request for information sent by the Chairman of the Financial Review Steering Committee, (response dated November 22, 1999).
- b) Monthly Financial Report as at September 30, 1999.
- c) 1998/99 Capital Projects Carried Forward to 1999/2000.
- d) 1998/99 Commitment of Capital as of March 31, 1999.
- e) Summary of Projects Carried Forward from 1998/99 at October 31, 1999.
- f) Management Flash Report as at November 13, 1999.
- g) Legal Issues Current Status.

## **SECTION B – GENERAL INFORMATION REVIEWED**

1. 1999 – 2000 Province of Manitoba Budget
2. 1998/99 Public Accounts Volume I – Financial Statements for the Consolidated Funds
3. 1998/99 Public Accounts Volume II – Public Sector Compensation Disclosure and Details of Payments Made
4. Public Accounts of Manitoba 1998-1999, Volume III
5. 1997/98 Public Accounts Volume I – Financial Statements for the Consolidated Funds
6. 1997/98 Public Accounts Volume II – Public Sector Compensation Disclosure and Details of Payments Made
7. 1997/98 Public Accounts Volume III – Summary Financial Statements
8. 1997/98 Public Accounts Volume IV – Entity Financial Statements (for entities included in the Summary Financial Statements)
9. 1997/98 Audit of the Public Accounts by the Office of the Provincial Auditor
10. October 14, 1999 Nova Scotia Budget Bulletin
11. Budget Address, Province of Nova Scotia for 1999-2000 (October 14, 1999)
12. Nova Scotia Year End Forecast Update for 1998/99 and 1999/00
13. Nova Scotia Department of Finance – “Financial Accountability” presentation – September 28, 1999
14. Balanced Budget Legislation (1995) – Background Paper & Legislation as passed
15. Balanced Budget, Debt Repayment and Taxpayer Protection Act
16. Chronology of Provincial Auditor’s Comments on the Fiscal Stabilization Fund
17. The Fiscal Stabilization Fund Act
18. The Appropriation Act
19. The Financial Administration Act
20. CICA Research Report – Indicators of Government Financial Condition

21. Fiscal Outlook Information
22. Special Warrants Information
23. Policy Pressures Briefing for Minister of Finance
24. October 1999 – 1999/2000 Fiscal Update, Presentation to Treasury Board
25. Second Quarter Departmental Summaries
26. October 1, 1999 Presentation to Treasury Board
27. Province of New Brunswick Independent Financial Review – Nov 18/99 Press Release
28. October 26/99 – Briefing on Stabilization Fund for Minister of Finance
29. Saskatchewan Crown Sector Strategic Plan
30. Saskatchewan Personal Income Tax Review (Nov. 1999)
31. Briefing note on summary of provincial obligations, December 22, 1999
32. Memorandum on the Balanced Budget, Debt Repayment and Taxpayer Protection Act transitional issues, October 28, 1999 from Civil Legal Services SOA to the Deputy Minister of Finance
33. Legal opinion of Meyers Wineberg Kussin dated October 29, 1999 to Justice Manitoba
34. Legal opinion of Teskey, Wood dated October 29, 1999 to Deputy Minister of Finance
35. Actual to budget variances 1997/1998 and 1998/1999 briefing note, Department of Finance
36. Manitoba Hydro, alternatives for additional payment transfers to the Province, November 1999
37. Stevenson Kellogg Ernst and Whinney, Management Consultants report on Pension Plans prepared for Government of Manitoba, August 8, 1988
38. Public Sector Pension Plans report, Labour Relations Division, the Province of Manitoba
39. Draft reports on Pension Liabilities, Deputy Minister of Finance, December 7, 1999 and December 10, 1999
40. 2000/01 expenditure estimates, Treasury Board review of departmental estimates, Health – overview of capital program, December 1999

41. Presentation to Treasury Board, briefing on Health Capital Program, December 22, 1999
42. Manitoba Health – 1999/2000 Capital Program – Status report – December 1999

**APPENDIX D**

**INDIVIDUALS INTERVIEWED**



## APPENDIX D

### SECTION A – GENERAL DISCUSSIONS

| <i>Date</i>       | <i>Name</i>                                                                            | <i>Title</i>                                                                                                                         | <i>Organization</i>                                                                                                    |
|-------------------|----------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------|
| October 25, 1999  | Ron Hikel<br>Pat Gannon                                                                | Chair<br>Deputy Minister                                                                                                             | Steering Committee<br>Department of Finance                                                                            |
| October 26, 1999  | Ron Hikel<br>Jon Singleton<br>Warren Johnson<br>Greg MacBeth                           | Chair<br>Provincial Auditor<br>Assistant Provincial Auditor<br>Manager                                                               | Steering Committee<br>Provincial Auditor's Office<br>Provincial Auditor's Office<br>Provincial Auditor's Office        |
| November 1, 1999  | Steering Committee                                                                     |                                                                                                                                      |                                                                                                                        |
| November 1, 1999  | John Loxley                                                                            | Advisor                                                                                                                              | Steering Committee                                                                                                     |
| November 4, 1999  | Jim Eldridge<br>Eugene Kostyra<br>Ron Hikel                                            | Member<br>Advisor<br>Chair                                                                                                           | Steering Committee<br>Steering Committee<br>Steering Committee                                                         |
| November 8, 1999  | Steering Committee                                                                     |                                                                                                                                      |                                                                                                                        |
| November 8, 1999  | Pat Gannon<br>Eric Rosenhek                                                            | Member<br>Special Advisor to Deputy<br>Minister of Finance                                                                           | Steering Committee                                                                                                     |
| November 11, 1999 | Ron Hikel                                                                              | Chair                                                                                                                                | Steering Committee                                                                                                     |
| November 12, 1999 | Ron Hikel                                                                              | Chair                                                                                                                                | Steering Committee                                                                                                     |
| November 15, 1999 | Ron Hikel                                                                              | Chair                                                                                                                                | Steering Committee                                                                                                     |
| November 16, 1999 | Ron Hikel                                                                              | Chair                                                                                                                                | Steering Committee                                                                                                     |
| November 17, 1999 | Steering Committee                                                                     |                                                                                                                                      |                                                                                                                        |
| November 29, 1999 | Steering Committee                                                                     |                                                                                                                                      |                                                                                                                        |
| December 13, 1999 | Steering Committee                                                                     |                                                                                                                                      |                                                                                                                        |
| December 13, 1999 | Jon Singleton<br>Warren Johnson<br>Greg MacBeth<br>Eric Rosenhek<br><br>Gerry Gaudreau | Provincial Auditor<br>Assistant Provincial Auditor<br>Manager<br>Special Advisor to the Deputy<br>Minister of Finance<br>Comptroller | Provincial Auditor's Office<br>Provincial Auditor's Office<br>Provincial Auditor's Office<br><br>Department of Finance |
| December 20, 1999 | Jon Singleton<br>Ron Hikel                                                             | Provincial Auditor<br>Chair                                                                                                          | Provincial Auditor's Office<br>Steering Committee                                                                      |
| December 23, 1999 | Steering Committee                                                                     |                                                                                                                                      |                                                                                                                        |
| January 4, 2000   | Jon Singleton                                                                          | Provincial Auditor                                                                                                                   | Provincial Auditor's Office                                                                                            |
| January 7, 2000   | Steering Committee                                                                     |                                                                                                                                      |                                                                                                                        |

| <i>Date</i>      | <i>Name</i>                                       | <i>Title</i>                                                      | <i>Organization</i>                                                                 |
|------------------|---------------------------------------------------|-------------------------------------------------------------------|-------------------------------------------------------------------------------------|
| January 11, 2000 | Jon Singleton<br>Warren Johnson<br>Gerry Gaudreau | Provincial Auditor<br>Assistant Provincial Auditor<br>Comptroller | Provincial Auditor's Office<br>Provincial Auditor's Office<br>Department of Finance |
| January 11, 2000 | Ron Hikel                                         | Chair                                                             | Steering Committee                                                                  |
| January 17, 2000 | Steering Committee                                |                                                                   |                                                                                     |
| January 18, 2000 | Warren Johnson                                    | Assistant Provincial Auditor                                      | Provincial Auditor's Office                                                         |
| January 19, 2000 | Ron Hikel                                         | Chair                                                             | Steering Committee                                                                  |
| January 20, 2000 | Ron Hikel                                         | Chair                                                             | Steering Committee                                                                  |
| January 24, 2000 | Steering Committee                                |                                                                   |                                                                                     |
| January 31, 2000 | Steering Committee                                |                                                                   |                                                                                     |
| February 7, 2000 | Steering Committee                                |                                                                   |                                                                                     |

Meetings with Treasury Board Officials:

| <i>Date</i>       | <i>Name</i>                                               | <i>Title</i>                                                   | <i>Organization</i>                                 |
|-------------------|-----------------------------------------------------------|----------------------------------------------------------------|-----------------------------------------------------|
| October 28, 1999  | Don Potter<br>Debra Woodgate                              | Secretary<br>Assistant Secretary                               | Treasury Board Secretariat                          |
| November 3, 1999  | Debra Woodgate<br>Bob Yuel                                | Assistant Secretary<br>Manager                                 | Treasury Board Secretariat                          |
| November 16, 1999 | Don Potter<br>Debra Woodgate                              | Secretary<br>Assistant Secretary                               | Treasury Board Secretariat                          |
| December 22, 1999 | Don Potter<br>Debra Woodgate                              | Secretary<br>Assistant Secretary                               | Treasury Board Secretariat                          |
| January 21, 2000  | Don Potter<br>Debra Woodgate<br>Bruce Gray<br>Barb Dryden | Secretary<br>Assistant Secretary<br>Manager<br>Analyst         | Treasury Board Secretariat                          |
| February 3, 2000  | Don Potter<br>Debra Woodgate<br>Bruce Gray<br>Pat Gannon  | Secretary<br>Assistant Secretary<br>Manager<br>Deputy Minister | Treasury Board Secretariat<br>Department of Finance |

## SECTION B –DISCUSSIONS RELATED TO SPECIFIC ENTITIES

### DEPARTMENTS & AGENCIES

#### 1. Aboriginal and Northern Affairs

| <i>Date</i>       | <i>Name</i>                  | <i>Title</i>                                                     | <i>Organization</i>             |
|-------------------|------------------------------|------------------------------------------------------------------|---------------------------------|
| November 23, 1999 | Mike Sosiak<br>Bob Yuel      | Analyst<br>Manager                                               | Treasury Board Secretariat      |
| December 3, 1999  | Jeff Polakoff<br>Rene Gagnon | Assistant Deputy Minister<br>Manager, Administration and Finance | Aboriginal and Northern Affairs |

#### 2. Communities Economic Development Fund

| <i>Date</i>       | <i>Name</i>     | <i>Title</i>            | <i>Organization</i>                   |
|-------------------|-----------------|-------------------------|---------------------------------------|
| November 30, 1999 | Gordon Wakeling | General Manager and CEO | Communities Economic Development Fund |

#### 3. Agriculture and Food

| <i>Date</i>       | <i>Name</i>                                                                        | <i>Title</i>                                                                                                              | <i>Organization</i>                                                                                                |
|-------------------|------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------|
| November 10, 1999 | Don Zasada<br>Bob Yuel<br>Les Baseraba<br>Craig Lee<br>Marvin Richter              | Deputy Minister<br>Manager<br>Assistant Deputy Minister<br>Assistant Deputy Minister<br>Manager, Financial Administration | Agriculture & Food<br>Treasury Board Secretariat<br>Agriculture & Food<br>Agriculture & Food<br>Agriculture & Food |
| November 22, 1999 | Bob Yuel<br>Vernon DePape                                                          | Manager<br>Analyst                                                                                                        | Treasury Board Secretariat<br>Treasury Board Secretariat                                                           |
| November 30, 1999 | Les Baseraba<br>Craig Lee<br>Marvin Richter                                        | Assistant Deputy Minister<br>Assistant Deputy Minister<br>Manager, Financial Administration                               | Agriculture & Food<br>Agriculture & Food<br>Agriculture & Food                                                     |
| December 1, 1999  | Les Baseraba<br>Marvin Richter<br>Gill Shaw<br>Charlene Gibbons<br>Karen McEachern | General Manager<br>Director, Programs<br>Director, Finance & Administration                                               | MACC<br>MACC<br>MACC                                                                                               |

#### 4. Manitoba Agricultural Credit Corp.

| <i>Date</i>      | <i>Name</i>      | <i>Title</i>                            | <i>Organization</i>         |
|------------------|------------------|-----------------------------------------|-----------------------------|
| December 1, 1999 | Gill Shaw        | General Manager                         | MACC                        |
|                  | Charlene Kibbins | Director, Corporate Program Development | MACC                        |
|                  | Karen McEachern  | Director, Finance and Administration    | MACC                        |
| December 1, 1999 | Les Baseraba     | Assistant Deputy Minister               | Dept. of Agriculture & Food |
|                  | Marvin Richter   | Manager Financial Administration        |                             |

#### 5. Manitoba Crop Insurance Corp.

| <i>Date</i>      | <i>Name</i> | <i>Title</i>                           | <i>Organization</i>                 |
|------------------|-------------|----------------------------------------|-------------------------------------|
| December 1, 1999 | Jim Lewis   | Director of Finance and Administration | Manitoba Crop Insurance Corporation |
| December 1, 1999 | Dave Taylor | Manager of Finance                     | Manitoba Crop Insurance Corporation |

#### 6. Civil Service Commission

| <i>Date</i>       | <i>Name</i>  | <i>Title</i>              | <i>Organization</i>        |
|-------------------|--------------|---------------------------|----------------------------|
| November 23, 1999 | Bruce Gray   | Manager                   | Treasury Board Secretariat |
| December 2, 1999  | Gerry Irving | Assistant Deputy Minister | Civil Service Commission   |

#### 7. Conservation

| <i>Date</i>      | <i>Name</i>   | <i>Title</i>       | <i>Organization</i>        |
|------------------|---------------|--------------------|----------------------------|
| December 2, 1999 | Bill Podolsky | Executive Director | Department of Conservation |
|                  | Peter Lockett | Director           |                            |

#### 8. Consumer and Corporate Affairs

| <i>Date</i>       | <i>Name</i> | <i>Title</i>               | <i>Organization</i>            |
|-------------------|-------------|----------------------------|--------------------------------|
| November 23, 1999 | Bob Yuel    | Manager                    | Treasury Board Secretariat     |
|                   | Mike Sosiak | Analyst                    |                                |
| November 26, 1999 | Fred Bryans | Director of Administration | Consumer and Corporate Affairs |

#### 9. Culture, Heritage and Tourism

| <i>Date</i>       | <i>Name</i>  | <i>Title</i>       | <i>Organization</i>               |
|-------------------|--------------|--------------------|-----------------------------------|
| November 22, 1999 | Rick Dykes   | Manager            | Treasury Board Secretariat        |
|                   | Laura Gareau | Analyst            |                                   |
| November 29, 1999 | David Paton  | Executive Director | Culture, Heritage and Citizenship |

## 10. Education and Training

| <i>Date</i>      | <i>Name</i>                         | <i>Title</i>                                           | <i>Organization</i>                  |
|------------------|-------------------------------------|--------------------------------------------------------|--------------------------------------|
| November 1, 1999 | Dave Shanks<br>Konrad Erickson      | Manager<br>Analyst                                     | Treasury Board Secretariat           |
| November 5, 1999 | Tom Thompson                        | Director, Finance & Administration                     | Department of Education and Training |
| December 6, 1999 | Bob Gorchynski<br>Bob Giesbrecht    | Management Services,<br>Executive Director             | Department of Education and Training |
| December 8, 1999 | Mary Lou Kuxhouse<br>Marie Fielding | Employment and Training<br>Services Executive Director | Department of Education and Training |

## 11. Council on Post Secondary Education

| <i>Date</i>      | <i>Name</i>                         | <i>Title</i>                                       | <i>Organization</i>                 |
|------------------|-------------------------------------|----------------------------------------------------|-------------------------------------|
| December 2, 1999 | Leo LeTourneau<br>Margaret McDonald | Chief Executive Officer<br>Chief Financial Officer | Council on Post Secondary Education |

## 12. Public Schools Finance Board

| <i>Date</i>       | <i>Name</i>  | <i>Title</i>                            | <i>Organization</i>          |
|-------------------|--------------|-----------------------------------------|------------------------------|
| November 24, 1999 | Paul Birston | Acting Executive Director               | Public Schools Finance Board |
| November 26, 1999 | Steve Power  | Acting Director, Education and Training | Schools Finance Branch       |

## 13. "Family Services" Component, including Child and Family Services Agencies of Family Services and Housing

| <i>Date</i>      | <i>Name</i>                                                                  | <i>Title</i>                                                                                                                       | <i>Organization</i>                                                           |
|------------------|------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------|
| November 1, 1999 | Rick Dykes<br>Sandra Cohen                                                   | Manager<br>Analyst                                                                                                                 | Treasury Board Secretariat                                                    |
| November 9, 1999 | Drew Perry<br>Sheila Lebredt                                                 | Assistant Deputy Minister of<br>Administration and Finance<br>Acting Director of Financial and<br>Administration Services          | Department of Family Services                                                 |
| December 7, 1999 | Drew Perry<br>Sheila Lebredt<br>Phil Goodman<br>Dale Robinson<br>Fred Besant | Executive Director,<br>Manager, External Agencies,<br>Contract Administrator<br>Divisional Manager, Financial<br>Planning & Review | Child & Family Services<br>Child & Family Services<br>Child & Family Services |



#### 14. "Housing" Component and Manitoba Housing Rehabilitation Corp. (Contractor Prepared)

| <i>Date</i>       | <i>Name</i>    | <i>Title</i>                       | <i>Organization</i>         |
|-------------------|----------------|------------------------------------|-----------------------------|
| November 22, 1999 | Tannis Mindell | Deputy Minister                    | Family Services and Housing |
| November 22, 1999 | Kim Sharman    | Acting Assistant Deputy Minister   | Housing                     |
| November 22, 1999 | Henry Bos      | Director of Finance and Operations | Housing                     |

#### 15. Finance

| <i>Date</i>       | <i>Name</i>                                                                             | <i>Title</i>                                                                                                                                                                       | <i>Organization</i>                                                          |
|-------------------|-----------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------|
| Various           | Don Potter<br>Debra Woodgate                                                            | Secretary to Treasury Board<br>Associate Secretary to Treasury Board                                                                                                               | Treasury Board Secretariat                                                   |
| November 2, 1999  | Bruce Gray<br>Barb Dryden                                                               | Manager<br>Analyst                                                                                                                                                                 | Treasury Board Secretariat                                                   |
| November 2, 1999  | Neil S. Benditt<br>W. J. Cessford<br><br>Gary Gibson<br><br>Scott Wiebe<br><br>Don Wood | Assistant Deputy Minister<br>Director, Money Management and Banking<br>Assistant Director, Capital Finance<br>Assistant Director, Treasury Services<br>Director, Treasury Services | Department of Finance, Treasury                                              |
| November 3, 1999  | Ewald Boschmann<br>Ron Neumann<br><br>Bruce Gray                                        | Assistant Deputy Minister<br>Director, Intergovernmental Affairs<br>Manager                                                                                                        | Department of Finance<br>Department of Finance<br>Treasury Board Secretariat |
| November 30, 1999 | Gerry Gaudreau<br>Eric Rosenhek                                                         | Comptroller<br>Special Advisor to the Deputy Minister                                                                                                                              | Department of Finance<br>Department of Finance                               |
| December 20, 1999 | Ewald Boschmann<br>Ron Neumann                                                          | Assistant Deputy Minister<br>Director, Intergovernmental Affairs                                                                                                                   | Department of Finance<br>Department of Finance                               |
| January 6, 2000   | Ewald Boschmann<br>Ron Neumann                                                          | Assistant Deputy Minister<br>Director, Intergovernmental Affairs                                                                                                                   | Department of Finance<br>Department of Finance                               |

#### 16. Government Information Systems Management Organization Inc.

| <i>Date</i>      | <i>Name</i>                         | <i>Title</i>                | <i>Organization</i>                                                                         |
|------------------|-------------------------------------|-----------------------------|---------------------------------------------------------------------------------------------|
| December 2, 1999 | Eric Rosenhek<br><br>Gerry Gaudreau | Director<br><br>Comptroller | Government Information Systems Management Organization (Man.) Inc.<br>Department of Finance |

### 17. Special Operating Agencies Financing Authority

| <i>Date</i>       | <i>Name</i>  | <i>Title</i>                                                         | <i>Organization</i>                                  |
|-------------------|--------------|----------------------------------------------------------------------|------------------------------------------------------|
| November 30, 1999 | John Wilkins | Chairperson of the SOA<br>Financing Authority and SOA<br>Coordinator | Special Operating<br>Agencies Financing<br>Authority |

### 18. Health and Health Services Insurance Fund

| <i>Date</i>       | <i>Name</i>                                       | <i>Title</i>                                                     | <i>Organization</i>        |
|-------------------|---------------------------------------------------|------------------------------------------------------------------|----------------------------|
| October 29, 1999  | Dave Shanks<br>Kerry McQuarrie-Smith<br>Don Hurst | Manager<br>Analyst<br>Analyst                                    | Treasury Board Secretariat |
| November 5, 1999  | Dwight Barna<br><br>Susan Murphy                  | Director Finance/Administration<br><br>Assistant Deputy Minister | Manitoba Health            |
| November 9, 1999  | Dwight Barna<br>Susan Murphy                      | Director Finance/Administration<br>Assistant Deputy Minister     | Manitoba Health            |
| November 25, 1999 | Linda West                                        | Exec. Director Labor Relations                                   | Manitoba Health            |
| November 25, 1999 | Jack Rosentreter                                  | Director Pharmaceutical<br>Consulting                            | Manitoba Health            |
| November 25, 1999 | John Koschuk                                      | Consultant/Analyst                                               | Manitoba Health            |
| December 6, 1999  | Olaf Koester                                      | Director Provincial Drug<br>Programs                             | Manitoba Health            |

### 19. Health Information Systems Management (HISM) Inc.

| <i>Date</i>       | <i>Name</i>                                    | <i>Title</i>                                                                                                | <i>Organization</i>                                                               |
|-------------------|------------------------------------------------|-------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------|
| October 26, 1999  | Jon Singleton<br>Warren Johnson<br>Greg McBeth | Provincial Auditor<br>Assistant Provincial Auditor<br>Manager                                               | Office of the Provincial<br>Auditor                                               |
| November 5, 1999  | Susan Murphy<br><br>Dwight Barna               | Assistant Deputy Minister,<br>Internal Programs and<br>Operations,<br>Director, Finance &<br>Administration | Department of Health                                                              |
| November 8, 1999  | David Petrie                                   | Manager                                                                                                     | Office of the Provincial<br>Auditor                                               |
| November 9, 1999  | Todd Herron                                    | Executive Director, Information<br>Systems Branch                                                           | Department of Health                                                              |
| November 30, 1999 | Gerry Gaudreau<br>Eric Rosenhek                | Comptroller<br>Secretary                                                                                    | Province of Manitoba<br>Health Information<br>Services of Manitoba<br>Corporation |

## 20. Manitoba Cancer Treatment and Research Foundation

| <i>Date</i>       | <i>Name</i>    | <i>Title</i>     | <i>Organization</i>                               |
|-------------------|----------------|------------------|---------------------------------------------------|
| November 30, 1999 | Debbie Frankel | Manager, Finance | Manitoba Cancer Treatment and Research Foundation |

## 21. Highways & Government Services

| <i>Date</i>       | <i>Name</i>                                  | <i>Title</i>                                          | <i>Organization</i>                                                                    |
|-------------------|----------------------------------------------|-------------------------------------------------------|----------------------------------------------------------------------------------------|
| November 23, 1999 | Rick Dykes<br>David Koslowsky<br>Todd Callin | Manager<br>Analyst<br>Analyst                         | Treasury Board Secretariat<br>Treasury Board Secretariat<br>Treasury Board Secretariat |
| November 30, 1999 | Paul Rochon                                  | Assistant Deputy Minister.<br>Administrative Services | Manitoba Highways                                                                      |
| December 1, 1999  | Gerry Bosma                                  | Director, Administration and Finance                  | Manitoba Government Services                                                           |

## 22. Industry, Trade and Mines

| <i>Date</i>      | <i>Name</i>                                        | <i>Title</i>                                                                                                    | <i>Organization</i>                    |
|------------------|----------------------------------------------------|-----------------------------------------------------------------------------------------------------------------|----------------------------------------|
| November 9, 1999 | Jim Kilgour                                        | Director, Financial Services                                                                                    | Department of Industry Trade and Mines |
| December 1, 1999 | Jack Dalglish<br><br>Jim Kilgour<br>Craig Halwachs | Director, Finance & Administration<br>Director, Financial Services<br>Director, Finance & Administration, Mines | Department of Industry Trade and Mines |

## 23. Manitoba Development Corporation and Manitoba Trading and Investment Corporation

| <i>Date</i>      | <i>Name</i>                      | <i>Title</i>                                                       | <i>Organization</i>                     |
|------------------|----------------------------------|--------------------------------------------------------------------|-----------------------------------------|
| November 9, 1999 | Jim Kilgour                      | Director, Financial Services                                       | Department of Industry, Trade and Mines |
| December 1, 1999 | Jack Dalglish<br><br>Jim Kilgour | Director, Finance & Administration<br>Director, Financial Services | Department of Industry, Trade and Mines |

## 24. Economic and Technology Innovation Council

| <i>Date</i>       | <i>Name</i>   | <i>Title</i>   | <i>Organization</i>                        |
|-------------------|---------------|----------------|--------------------------------------------|
| November 30, 1999 | John Clarkson | Vice-President | Economic Innovation and Technology Council |

## 25. Intergovernmental Affairs

| <i>Date</i>       | <i>Name</i>                                             | <i>Title</i>                             | <i>Organization</i>                     |
|-------------------|---------------------------------------------------------|------------------------------------------|-----------------------------------------|
| November 23, 1999 | Vernon Depape<br>Doug Mulder<br>Dave Shanks<br>Bob Yuel | Analyst<br>Analyst<br>Manager<br>Manager | Treasury Board Secretariat              |
| November 25, 1999 | Denise Carlyle                                          | Executive Director                       | Department of Intergovernmental Affairs |

## 26. Manitoba Water Services Board

| <i>Date</i>       | <i>Name</i>                                       | <i>Title</i>                                              | <i>Organization</i>           |
|-------------------|---------------------------------------------------|-----------------------------------------------------------|-------------------------------|
| November 25, 1999 | R. (Dick) Menon<br>Cheryl Brigden<br>Bill Kenning | General Manager<br>Accounts Manager<br>Manager, Contracts | Manitoba Water Services Board |

## 27. Justice

| <i>Date</i>      | <i>Name</i>                   | <i>Title</i>                                                                       | <i>Organization</i>                            |
|------------------|-------------------------------|------------------------------------------------------------------------------------|------------------------------------------------|
| November 1, 1999 | Rick Dykes<br>Tom Stokes      | Manager<br>Analyst                                                                 | Treasury Board Secretariat                     |
| November 8, 1999 | Patrick Sinnott<br>Don Saltis | Executive Director of Administration and Finance<br>Director of Financial Services | Department of Justice<br>Department of Justice |

## 28. Legal Aid

| <i>Date</i>       | <i>Name</i>  | <i>Title</i>               | <i>Organization</i> |
|-------------------|--------------|----------------------------|---------------------|
| November 24, 1999 | Robin Dwarka | Director of Administration | Legal Aid Manitoba  |

## 29. Criminal Injuries Compensation Board

| <i>Date</i>       | <i>Name</i>    | <i>Title</i> | <i>Organization</i>                       |
|-------------------|----------------|--------------|-------------------------------------------|
| December 28, 1999 | Larry Krockner | Director     | Compensation for Victims of Crime Program |

### 30. Labour

| <i>Date</i>       | <i>Name</i>      | <i>Title</i>                 | <i>Organization</i>                                                                                                                |
|-------------------|------------------|------------------------------|------------------------------------------------------------------------------------------------------------------------------------|
| November 23, 1999 | Rick Dykes       | Manager                      | Department of Finance,<br>Treasury Board Secretariat                                                                               |
|                   | David Koslowsky  | Analyst                      |                                                                                                                                    |
| November 24, 1999 | James E. Nykoluk | Assistant Deputy Minister    | Department of Labour,<br>Labour/Management<br>Services Division<br>Department of Labour,<br>Labour/Management<br>Services Division |
|                   | James P. Wood    | Director, Financial Services |                                                                                                                                    |

### 31. Fiscal Stabilization Fund and Debt Retirement Fund

| <i>Date</i>      | <i>Name</i>    | <i>Title</i> | <i>Organization</i> |
|------------------|----------------|--------------|---------------------|
| November 1, 1999 | Gerry Gaudreau | Comptroller  | Comptrollers Office |

### 32. Mining Community Reserve Fund

| <i>Date</i>      | <i>Name</i>    | <i>Title</i> | <i>Organization</i>                                                  |
|------------------|----------------|--------------|----------------------------------------------------------------------|
| December 6, 1999 | Craig Halwachs | Director     | Industry, Trade & Mines,<br>Financial and<br>Administrative Services |

### 33. Manitoba Liquor Control Commission

| <i>Date</i>       | <i>Name</i>   | <i>Title</i>                          | <i>Organization</i>                |
|-------------------|---------------|---------------------------------------|------------------------------------|
| November 26, 1999 | Garry Hoffman | President and Chief Executive Officer | Crown Corporations Council         |
| December 1, 1999  | Ian Wright    | President and Chief Executive Officer | Manitoba Liquor Control Commission |

### 34. Workers Compensation Board

| <i>Date</i>      | <i>Name</i>  | <i>Title</i>                                    | <i>Organization</i>                    |
|------------------|--------------|-------------------------------------------------|----------------------------------------|
| December 2, 1999 | Alfred Black | Vice-President, Financial and Employer Services | Workers Compensation Board of Manitoba |

### 35. Manitoba Public Insurance Corporation

| <i>Date</i> | <i>Name</i>      | <i>Title</i>                          | <i>Organization</i>        |
|-------------|------------------|---------------------------------------|----------------------------|
| 26/11/99    | Garry Hoffman    | President and Chief Executive Officer | Crown Corporations Council |
| 30/11/99    | Jack Zacharias   | President and Chief Executive Officer | Manitoba Public Insurance  |
| 30/11/99    | Barry Galenzoski | Vice-President Finance                | Manitoba Public Insurance  |



**36. Manitoba Hydro**

| <i>Date</i> | <i>Name</i>   | <i>Title</i>                          | <i>Organization</i>        |
|-------------|---------------|---------------------------------------|----------------------------|
| 26/11/99    | Garry Hoffman | President and Chief Executive Officer | Crown Corporations Council |
| 2/12/99     | Bob Brennan   | President & Chief Executive Officer   | Manitoba Hydro             |

**37. Manitoba Lotteries Corporation (Contractor Prepared)**

| <i>Date</i>       | <i>Name</i>    | <i>Title</i>                                            | <i>Organization</i>            |
|-------------------|----------------|---------------------------------------------------------|--------------------------------|
| November 22, 1999 | Bill Funk      | President and CEO                                       | Manitoba Lotteries Corporation |
| November 22, 1999 | Peter Hak      | Senior Vice-President and COO                           | Manitoba Lotteries Corporation |
| November 24, 1999 | Judith Baldwin | Special Assistant to Minister Responsible for Lotteries | Manitoba Government            |

In addition, as we sought the "sign off" letter from each department, confirming the information contained in the department's report, we met with each of the 16 deputy ministers.

**APPENDIX E**

**ENTITY SIGN-OFF LETTER**

## APPENDIX E

# Manitoba Finance



December 14, 1999

Dear Sir or Madam:

In a letter of October 19, 1999 I asked for your assistance, on behalf of the Province of Manitoba's Financial Review Steering Committee, by providing certain financial information. As you know, Deloitte & Touche LLP has been selected to undertake this important study for the government.

A representative of that firm has visited your designated contact person, to discuss the written material and other matters within the scope of the Review. In some cases, additional interviews have been held.

Deloitte & Touche LLP will shortly be completing a report summarizing their observations and findings on your organization.

A copy of this report will be sent to you shortly for your review. After providing any comments or corrections, the Financial Review Steering Committee requests that you "sign off" your concurrence with the facts presented in the report. These "signed off" reports will be used as input to Deloitte & Touche's final report. As time is very tight, your prompt response is requested.

Please note two other crucial points:

1. You are asked to indicate to Deloitte & Touche in the sign off letter the categories into which expenditures above the amounts approved in the 1999/2000 budget fall, and their amounts:
  - ☐ Explicitly authorized by Treasury Board. (please provide date)
  - ☐ Not authorized by Treasury Board, but required by an existing statutory or other authority. (please specify the nature of the obligation)
  - ☐ Required by an emergency. (details please)
  - ☐ Approved at the department level but with no formal approval by Treasury Board. (please name approving authority and provide explanation)

- 2 -

- ☐ Necessary to continue on-going service in 1999/2000 at 1998/1999 levels (details please)
  - ☐ The result of volume increases in demand. (please provide details on volume and approved authority)
  - ☐ Discretionary initiatives of the government prior to September 30, 1999.
  - ☐ Discretionary initiatives of the government taken after September 30, 1999.
2. You are asked to call Mr. Richard Olfert of Deloitte & Touche LLP at 944-3637 immediately if, subsequent to your sending in the signed off report, and up to December 27, 1999, you learn of anything which would alter the information you have provided, and inform Mr. Olfert of such changes.

A sample copy of the suggested form of the "sign off" is attached. If you have any questions, please call me at 948 - 4623 or 948 - 4624.

Yours truly,

"original signed by"

Ron Hikel

DEPARTMENT/AGENCY/CORPORATION/FUND NAME

Deloitte & Touche LLP  
2200 – 360 Main Street  
Winnipeg, Manitoba  
R3C 3Z3

Dear Sirs:

I have reviewed the report that Deloitte & Touche LLP has prepared for (name of entity/agency/fund/department), dated December , 1999. I represent, to the best of my knowledge and belief, that:

1. Our response to the Financial Review Steering Committee's request for information (by way of letter from Mr. Ron Hikel, dated October 19, 1999), includes account information on all material (defined as a cumulative value greater than \$10 million) matters and issues relevant to the questions contained in the request.
2. In particular, I have advised you of:
  - ☐ All anticipated variances between the department's approved estimates and the department's currently expected expenditures to March 31, 2000 (*for departments only*);
  - ☐ Any actual or anticipated requests for additional funding from the Province of Manitoba for expenditures, beyond those approved in the Budget, for the year ended March 31, 2000;
  - ☐ Beyond the 1999/2000 expenditure base, any significant specific initiatives, programs and contractual commitments that will increase the expenditures of the Province of Manitoba's Consolidated Fund, for the two fiscal years ended March 31, 2001 and 2002; and
  - ☐ Any events which could affect the creditworthiness of the Province.
3. There are no existing circumstances or plans for the future that have affected or will affect the value of assets, beyond those I have reported to you. All instances where the expected future value of specific assets is substantially below their current carrying value, have been identified.
4. All material contingencies, claims, possible claims or lurking liabilities, for the period up to March 31, 2000 have been disclosed to you.
5. No events have occurred and no facts have been discovered subsequent to the provision of the initial information requested that would require revision of the information already provided to Deloitte & Touche.



- 2 -

6. Expected expenditure variances from the approved 1999/2000 budget as set out in your report are correctly categorized as follows:

☐ Explicitly authorized by Treasury Board.  
(please provide date) \$ \_\_\_\_\_

☐ Not authorized by Treasury Board, but required  
by an existing statutory or other authority. \$ \_\_\_\_\_

☐ Required by an emergency. (details please) \$ \_\_\_\_\_

☐ Approved at the department level but with no  
formal approval by Treasury Board.  
(please name approving authority) \$ \_\_\_\_\_

☐ Necessary to continue on-going service in 1999/2000  
at 1998/1999 levels. \$ \_\_\_\_\_

☐ The result of volume increases in demand. \$ \_\_\_\_\_

☐ Discretionary initiatives of the government prior  
to September 30, 1999. \$ \_\_\_\_\_

☐ Discretionary initiatives of the government taken  
after September 30, 1999. \$ \_\_\_\_\_

TOTAL \$ \_\_\_\_\_

- 3 -

7. We have reviewed your report (name of entity/agency/fund/department), dated December , 1999. With the exception of the items noted below, we are in agreement with its contents. (list items below)

On behalf of (name of entity/agency/fund/department):

\_\_\_\_\_  
Name of Deputy Minister or  
CEO or Agency Head

\_\_\_\_\_  
Date

**APPENDIX F**

**DESCRIPTION OF CATEGORIES OF ENTITIES**

## APPENDIX F

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### TREASURY MANAGEMENT AND SPECIAL FUNDS

In order to sustain the operations of the Province, a comprehensive Treasury Management function has evolved within the Department of Finance. Its responsibilities include:

- management of public debt and the borrowing costs related thereto;
- investments, in the form of advances in government enterprises and other types of organizations, in accordance with the various acts under whose authority such investments are made;
- maintenance of certain special funds such as the Fiscal Stabilization Fund, Debt Retirement Fund and Mining Community Reserve Fund;
- management of the government's cash flow; and,
- management of the financing of government's capital requirements.

### OPERATING FUND

The Province's operating fund contains the revenues and expenditures which are approved by the Manitoba Legislative Assembly. Through an annual estimates process, a budget for expenditures is established. These expenditures are funded by revenues received from the federal government, from various taxation sources and from various revenues that departments are able to raise through the services which they provide. The operations of the Operating Fund are governed by the provisions of *The Balanced Budget, Debt Repayment and Taxpayer Protection Act*.

### CROWN ORGANIZATIONS

In many instances, delivery of services to Manitobans that are funded by a particular government department are provided through a Crown organization. Government departments in their budget estimates process determine the amount of funding to be allocated to a particular Crown organization. This amount is approved as part of the Operating Fund budget estimate process.

Crown organizations, in turn, receive the funding from the Operating Fund through government departments. These revenues are combined with other revenues that the organization may be able or entitled to raise. These revenues sources then fund service delivery to the public.

Each Crown organization is associated with a particular government department. There is regular communication between each Crown organization and its related department to monitor the ongoing activities, operations and issues of the Crown organization.

### GOVERNMENT ENTERPRISES

The government owns a variety of corporations that provide services to Manitobans. These Crown enterprises fall into two categories.

The first category is comprised of Crown enterprises that operate independently and retain all income generated by their business operations within the enterprise. These organizations do contribute to the revenue of the Province's Operating Fund through the payment of various amounts such as debt guarantee fees, payroll tax, and water power rentals. The most significant of these enterprises are:

- Manitoba Hydro;
- Workers Compensation Board; and,
- Manitoba Public Insurance Corporation.

The second category of government enterprises is comprised of those where the annual income is allocated back to the Province of Manitoba and paid into the Province's Operating Fund for use as general revenues to support expenditures which are authorized by the legislature. Government enterprises included in this group are:

- Manitoba Liquor Control Commission; and,
- Manitoba Lotteries Corporation.



## **APPENDIX G**

### **EXPLANATION OF SIGNIFICANT VARIANCES FOR USE AS REQUIRED TO SUPPORT VARIANCES DISCLOSED IN THE REPORT**

The information contained in this appendix was gathered during the financial review process. During the period from January 4 to February 8, we met with all Deputy Ministers to obtain their "sign-off" on these variance explanations and on other information about their respective departments.

Since these "sign-offs" were obtained, there have been changes in the status of several of these variances. For instance:

- The level of commitment may have changed;
- More current information regarding the expected amount of the variance has become available;
- The department may have identified means of funding the variance within its existing departmental expenditure authority.

These and other changes in the status of these variances since the completion of the "sign-off" by the responsible Deputy Ministers have not been reflected in Appendix G. However, such changes are included in our estimate of the projected deficit set out in the body of the report itself.

## APPENDIX G

### 1. Aboriginal and Northern Affairs

#### ***Variance: ATP Water Plants Replacement - \$1.0 million***

|                                                                           |                                                                                                                                                                                                                                                                                                                                                                       |
|---------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b><i>Description of Variance</i></b>                                     | Cost to retrofit water treatment plants in four northern communities and construct such a plant in one additional community.                                                                                                                                                                                                                                          |
| <b><i>Rationale for Variance</i></b>                                      | The four existing plants utilized new technology that worked intermittently. A deposit had previously been made for similar equipment at the additional location. The supplier, who was in the process of rectifying the problems by replacing equipment, has been placed in receivership. The repairs and construction of fully functioning facilities are required. |
| <b><i>Evidence for Variance</i></b>                                       | Approved by Treasury Board.                                                                                                                                                                                                                                                                                                                                           |
| <b><i>Potential Financial Impact of the Variance for Future Years</i></b> | This is expected to be a one time expenditure.                                                                                                                                                                                                                                                                                                                        |
| <b><i>Level of Commitment</i></b>                                         | Approved by Treasury Board.                                                                                                                                                                                                                                                                                                                                           |

#### ***Variance: C.E.D.F. Loan Loss Provisions - \$0.3 million***

|                                                           |                                                                                                                                                 |
|-----------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------|
| <b><i>Description of Variance</i></b>                     | Increase of the loan loss provision from \$325,000 to \$625,000 on a \$1.5 million loan to Gilbert International in the Interlake region.       |
| <b><i>Rationale for Variance</i></b>                      | Increased doubt about collection of the loan.                                                                                                   |
| <b><i>Evidence for Variance</i></b>                       | Treasury Board has approved the provision on the basis that it be funded internally by the Department.                                          |
| <b><i>Potential Financial Impact for Future Years</i></b> | Remaining net book value of the loan is \$875,000. Ongoing assessments of the collectability of these amounts is required.                      |
| <b><i>Level of Commitment</i></b>                         | Treasury Board approval for the provision, though the Department believes that the amount cannot be funded from within the Department's budget. |

## 2. Agriculture and Food

### ***Variance: Risk Management and Income Support Premiums – (\$2.4) million***

|                                                                           |                                                                                                                                                                                                                                |
|---------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b><i>Description of Variance</i></b>                                     | Manitoba Crop Insurance Corporation Premium surplus resulting in a direct decrease of expenditures of \$2.4 million.                                                                                                           |
| <b><i>Rationale for Variance</i></b>                                      | The surplus variance is due to the high numbers of unseeded acres in the southwest corner of the province as a result of spring flooding. The variance over past years has fluctuated typically around \$1.0 to \$1.2 million. |
| <b><i>Evidence for Variance</i></b>                                       | Department of Agriculture Financial Information Package.                                                                                                                                                                       |
| <b><i>Potential Financial Impact of the Variance for Future Years</i></b> | This variance is limited to the current year.                                                                                                                                                                                  |
| <b><i>Level of Commitment</i></b>                                         | N/A                                                                                                                                                                                                                            |

### ***Variance: Manitoba Agricultural Credit Corporation - \$0.9 million***

|                                                                           |                                                                                                                                                                                                                                          |
|---------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b><i>Description of Variance</i></b>                                     | The over expenditure of \$.9 million is due largely to a \$2.0 million allowance for additional bad debts related to the Manitoba Producer's Recovery Program partially offset by smaller revenue items, e.g., land sales.               |
| <b><i>Rationale for Variance</i></b>                                      | The Manitoba Producer's Recovery Program is used to provide loans and guarantees for producers due to the delay in Federal Aid. The loans are designed to put cash into the hands of the farmers to seed the land.                       |
| <b><i>Evidence for Variance</i></b>                                       | Department of Agriculture Financial Information Package.                                                                                                                                                                                 |
| <b><i>Potential Financial Impact of the Variance for Future Years</i></b> | This variance will decrease due to the scheduled conclusion of this program.                                                                                                                                                             |
| <b><i>Level of Commitment</i></b>                                         | The Department is committed to offer these services until the scheduled program conclusion. It is expected that this over expenditure will be managed within the existing departmental budget by a transfer between main appropriations. |

**Variance: Agricultural Income Disaster Assistance – 1998 - \$9.0 million**

|                                                                    |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |
|--------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Description of Variance</b>                                     | The over expenditure of \$9.0 million is due largely in part to increased estimated expenditures related to the Agriculture Income Disaster Assistance program.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |
| <b>Rationale for Variance</b>                                      | The Agriculture Income Disaster Assistance Program is designed to supplement farmers' income. The benefit to the farmer calculated to be equal to the amount of the operating margin (cash income minus operating expenses adjusted for inventory changes) in the current year is less than 70% of the average operating margin for the preceding three years. The department's best estimate of the liability is \$21.0 million. The Government of Canada and the Provincial Government have a 60/40 cost sharing in place. The province has committed itself to a maximum \$24.9 million and \$37.3 million for the 1998 and 1999 base income years respectively. To date the department has received 7,000 applications of which approximately 6,500 have been processed and paid. The last few applications seem to be their largest. |
| <b>Evidence for Variance</b>                                       | Department of Agriculture Financial Information Package.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
| <b>Potential Financial Impact of the Variance for Future Years</b> | Variances between expenditures recorded as estimates in the current period and the ultimately determined costs will be recorded in future years.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |
| <b>Level of Commitment</b>                                         | The Department is committed to maximums as indicated above. Treasury Board has not yet authorized the over expenditure.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |

**3. Civil Service Commission**

No significant expenditure variances were noted.

**4. Conservation**

**Variance: Flood Proofing – (\$31.8) million**

|                                |                                                                                                                                                                                                                                                                                                                                                                                            |
|--------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Description of Variance</b> | The variance relates to the under expenditure of funds for flood proofing activities.                                                                                                                                                                                                                                                                                                      |
| <b>Rationale for Variance</b>  | The department had initially budgeted \$51.1 million for flood proofing activities. An enabling vote was added to supplement the expenditure of \$12.8 million. However, delays in project completion have deferred the costs to future years. Delays to program completion are a result of engineering and environmental studies and municipal funding issues with respect to ring dikes. |

|                                                                    |                                                                                                                    |
|--------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------|
| <b>Evidence for Variance</b>                                       | November 3, 1999 Information Package.                                                                              |
| <b>Potential Financial Impact of the Variance for Future Years</b> | The variance for the expenditure will carryover to the following years until all the projects have been completed. |
| <b>Level of Commitment</b>                                         | N/A                                                                                                                |

**5. Consumer and Corporate Affairs**

No significant variances were identified.

**6. Culture, Heritage and Tourism**

No significant variances were identified.

**7. Education and Training**

***Variance: Increase in Adult Education - \$11.6 million***

|                                                                    |                                                                                                                                                                                                                          |
|--------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Description of Variance</b>                                     | 1999/2000 school year eligible enrolment for adult education exceeded the original budget by 3,030. Approximately 2,100 of these pupils enrolled in the Morris McDonald School Division No. 19.                          |
| <b>Rationale for Variance</b>                                      | Funding for adults enrolled in the public school system is provided through the Schools Finance Program based on eligible enrollment.                                                                                    |
| <b>Evidence for Variance</b>                                       | Public Schools Finance Branch has received confirmed enrolment figures from all school divisions.                                                                                                                        |
| <b>Potential Financial Impact of the Variance for Future Years</b> | In the absence of any changes to the way in which adult funding is determined under the Schools Finance Program, the increased funding level will continue as long as enrolment levels continue at the 1999/2000 levels. |
| <b>Level of Commitment</b>                                         | The funding for 1999/2000 for this over expenditure will flow to the school divisions in the normal course of the advancing of grant funds to them.                                                                      |

***Variance: Increase in Scholarship Bursaries - \$11.3 million***

|                                |                                                                                                                                                                                                                          |
|--------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Description of Variance</b> | As a result of increased funding from the Government of Canada for the Canada Millennium Scholarship Fund of \$11.3 million, the Province of Manitoba will provide scholarships of an equal amount to Manitoba students. |
| <b>Rationale for Variance</b>  | The Province is utilizing the Canadian Government's Scholarship Program at no net cost to the Government of Manitoba.                                                                                                    |



|                                                    |                                                                                                                                                                                                                                                           |
|----------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Evidence for Variance</b>                       | Application for the Federal Government Funding has successfully been made. The Department has formulated a program design to disburse the new scholarship funds.                                                                                          |
| <b>Potential Financial Impact for Future Years</b> | The over expenditure results entirely from the availability of unbudgeted additional revenues from the Federal Government. Future scholarships initiatives of this nature would only be incurred as offsetting Federal Government revenues are available. |
| <b>Level of Commitment</b>                         | Treasury Board approval of this over expenditure has been received.                                                                                                                                                                                       |

8. "Family Services" Component, including Child and Family Services Agencies of Family Services and Housing

**Variance: Employment and Income Assistance – (\$0.6) million**

|                                                                    |                                                                                                                                                                                                                                          |
|--------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Description of Variance</b>                                     | <b>Income Assistance Program</b>                                                                                                                                                                                                         |
| <b>Rationale for Variance</b>                                      | The under expenditure of \$0.6 million primarily consists of forecasted savings of approximately \$2.7 million directly related to reduced caseloads, offset by increases under Making Welfare Work to assist recipients to obtain jobs. |
| <b>Evidence for Variance</b>                                       | Response from Family Services.                                                                                                                                                                                                           |
| <b>Potential Financial Impact of the Variance for Future Years</b> | The impact of the program savings is anticipated to lessen, since the remaining cases are more difficult to place than the initial.                                                                                                      |
| <b>Level of Commitment</b>                                         | N/A                                                                                                                                                                                                                                      |

**Variance: Child and Family Services - \$8.0 million**

| <b>Description of Variance</b>                                     | <b>Maintenance of Children and External Agencies</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |
|--------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Rationale for Variance</b>                                      | <p>The over expenditure of \$8.0 million primarily consists of a \$5.2 million deficit of Winnipeg Child and Family Services and a \$1.8 million child maintenance increase. The \$5.2 million for Winnipeg Child and Family Services is composed of the following:</p> <ul style="list-style-type: none"> <li>- A \$3.0 million increase as a result of increased costs of child maintenance for emergency high cost placements and an increase in high-needs children requiring specialized placements.</li> <li>- A \$1.2 million increase due to salary related adjustments for year three of the collective agreement.</li> <li>- A \$1.0 million increase due to additional demand for family support services.</li> </ul> <p>The \$1.8 million child maintenance increase is due to the increasing cost of care for high-needs children serviced by agencies other than Child &amp; Family Services-Winnipeg.</p> |
| <b>Evidence for Variance</b>                                       | Forecast from Child and Family Services agencies.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |
| <b>Potential Financial Impact of the Variance for Future Years</b> | The impact of these variances is factored into the forecasted figures provided by Family Services. The increase costs and volumes causing the variance are expected continue to grow.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |
| <b>Level of Commitment</b>                                         | The Department has identified the need for the expenditures. Treasury Board approval has not yet been obtained.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |

**Variance: Community Living - \$0.9 million**

| <b>Description of Variance</b>                                     | <b>Adult Services and Manitoba Developmental Centre</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |
|--------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Rationale for Variance</b>                                      | <p>The over expenditure for community living services of \$0.9 million relates to Adult Services, Financial Assistance and External Agencies, which project an over expenditure of \$1.3 million, attributable primarily to:</p> <ul style="list-style-type: none"> <li>• A \$0.8 million over expenditure for residential, respite and crisis services for adults with a mental disability, due to growth in critical needs cases and no budgetary provision for the extra day of service during the leap year.</li> <li>• A \$0.2 million over expenditure for day services, due to growth in critical needs cases, no budgetary provision for the extra day of service during the leap year, and a 3% shortfall in funding through the 1999/00 estimates process.</li> <li>• A \$0.2 million increase in vocational rehabilitation services due to over-commitments in response to a growing wait list for services.</li> </ul> <p>An under expenditure of \$0.6 million is projected for the Manitoba Developmental Centre due to staff recruitment difficulties and vacancy management to partially offset over expenditures in other areas.</p> |
| <b>Evidence for Variance</b>                                       | Response from Family Services.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |
| <b>Potential Financial Impact of the Variance for Future Years</b> | The impact of these variances is factored into the forecasted figures provided by Family Services. The increased costs and volumes causing the variance are expected to continue to grow.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |
| <b>Level of Commitment</b>                                         | The Department has identified the need for the expenditures. Treasury Board approval has not yet been obtained.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |

**9. "Housing" Component and Manitoba Housing Rehabilitation Corp. (Contractor Prepared)**

**Variance: Housing Program Support - (\$0.2) million**

|                                |                                                                                                                            |
|--------------------------------|----------------------------------------------------------------------------------------------------------------------------|
| <b>Description of Variance</b> | Salary under expenditures.                                                                                                 |
| <b>Rationale for Variance</b>  | Staff positions being vacant for a portion of the year.                                                                    |
| <b>Evidence for Variance</b>   | Housing's 1999/2000 Projected Fiscal Position by Expenditure Category as at September 30, 1999 prepared by the Department. |

|                                                                    |                                                                                                  |
|--------------------------------------------------------------------|--------------------------------------------------------------------------------------------------|
| <b>Potential Financial Impact of the Variance for Future Years</b> | Number of positions to remain constant into near future at 101.5 full time equivalent positions. |
| <b>Level of Commitment</b>                                         | Normal, annual budget.                                                                           |

**Variance: Transfer Payments to MHRC – (\$1.8) million**

|                                                                    |                                                                                                                                                                                 |
|--------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Description of Variance</b>                                     | Under expenditure forecast.                                                                                                                                                     |
| <b>Rationale for Variance</b>                                      | Provincial portion of savings resulting from new Social Housing Agreement.<br><br>Lower than projected number of clients and average subsidy paid for SAFFR and SAFER programs. |
| <b>Evidence for Variance</b>                                       | Housing's 1999/2000 Projected Fiscal Position by Expenditure Category as at September 30, 1999 prepared by the Department.                                                      |
| <b>Potential Financial Impact of the Variance for Future Years</b> | Under the Social Housing Agreement, surplus' are anticipated in the initial years of the program to offset potential shortfalls / program changes in the future.                |
| <b>Level of Commitment</b>                                         | Normal, annual budget:                                                                                                                                                          |

**Variance: Grants and Subsidies – (\$0.4) million**

|                                                                    |                                                                                                                            |
|--------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------|
| <b>Description of Variance</b>                                     | Under expenditure forecast.                                                                                                |
| <b>Rationale for Variance</b>                                      | Lower than projected number of clients and average subsidy paid for SAFFR and SAFER programs.                              |
| <b>Evidence for Variance</b>                                       | Housing's 1999/2000 Projected Fiscal Position by Expenditure Category as at September 30, 1999 prepared by the Department. |
| <b>Potential Financial Impact of the Variance for Future Years</b> | Annual estimates done for grants and subsidies under various programs.                                                     |
| <b>Level of Commitment</b>                                         | Normal, annual budget.                                                                                                     |

## 10. Finance

### ***Variance: Provision Against Investment in Better Systems Initiative Project - \$9.7 million***

|                                                                           |                                                                                                                                                                                                                         |
|---------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b><i>Description of Variance</i></b>                                     | Provision against the investment carrying value of the Province's investment in the Better Systems Initiative.                                                                                                          |
| <b><i>Rationale for the Variance</i></b>                                  | The Province's Chief Information Officer believes that approximately \$9.7 million of the aggregate \$60 million of expenditures on the Better Systems Initiative to date will have no future value for the government. |
| <b><i>Evidence for Variance</i></b>                                       | Written confirmation of the Chief Information Officer (CIO).                                                                                                                                                            |
| <b><i>Potential Financial Impact of the Variance for Future Years</i></b> | It is not expected that further provisions will be required unless the initiative is abandoned before completion.                                                                                                       |
| <b><i>Level of Commitment</i></b>                                         | The CIO indicates that the provision should be made. Treasury Board approval is required.                                                                                                                               |

### ***Variance: Provision for Taxation Assessment Receivable & Litigation Resolution - \$9.2 million***

|                                                                           |                                                                                                                                                                                                        |
|---------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b><i>Description of Variance</i></b>                                     | Provision for taxation assessments that are though to be uncollectible (\$7.7 million) and provision for settlement of litigation (\$1.5 million).                                                     |
| <b><i>Rationale for the Variance</i></b>                                  | The Assistant Deputy Minister, Taxation believes that these provisions are required to accurately reflect the expectation that certain taxation assessments receivable are likely not to be collected. |
| <b><i>Evidence for Variance</i></b>                                       | Submission by the Assistant Deputy Minister, Taxation.                                                                                                                                                 |
| <b><i>Potential Financial Impact of the Variance for Future Years</i></b> | Further provisions against these specific accounts will not be required.                                                                                                                               |
| <b><i>Level of Commitment</i></b>                                         | The Department has approved the provisions. Treasury Board approval is still required.                                                                                                                 |



## 11. Health

### Variance: RHA Deficits - \$52.5 million

| <b>Description of Variance</b> | <p>Manitoba's regional health authorities anticipate incurring deficits, in aggregate, to provide health services as mandated. The components of this variance by health authority are set out below. These deficits have been adjusted to eliminate the effects of accrued wage settlements which are separately captured in this report.</p> <p style="text-align: center;"><b>Regional Health Authority 1999/2000 Forecast</b></p> <table border="1"> <thead> <tr> <th>Health Authority</th><th>Surplus(Deficit)</th></tr> </thead> <tbody> <tr><td>Burntwood</td><td>\$(1.6)</td></tr> <tr><td>Central</td><td>\$(1.2)</td></tr> <tr><td>Churchill</td><td>\$(0.2)</td></tr> <tr><td>Interlake</td><td>\$(0.4)</td></tr> <tr><td>Marquette</td><td>\$(0.8)</td></tr> <tr><td>Northern Manitoba</td><td>\$0.1</td></tr> <tr><td>North Eastman</td><td>\$(1.2)</td></tr> <tr><td>Parkland</td><td>\$0.8</td></tr> <tr><td>South Eastman</td><td>\$(0.3)</td></tr> <tr><td>South Westman</td><td>\$(0.3)</td></tr> <tr><td>Brandon</td><td>\$(3.1)</td></tr> <tr><td>WCA</td><td>\$(1.3)</td></tr> <tr><td>WHA</td><td>\$(44.1)</td></tr> <tr><td>Anticipated Adjustments</td><td>\$1.1</td></tr> <tr><td><b>TOTAL</b></td><td><b>\$52.5</b></td></tr> </tbody> </table> | Health Authority | Surplus(Deficit) | Burntwood | \$(1.6) | Central | \$(1.2) | Churchill | \$(0.2) | Interlake | \$(0.4) | Marquette | \$(0.8) | Northern Manitoba | \$0.1 | North Eastman | \$(1.2) | Parkland | \$0.8 | South Eastman | \$(0.3) | South Westman | \$(0.3) | Brandon | \$(3.1) | WCA | \$(1.3) | WHA | \$(44.1) | Anticipated Adjustments | \$1.1 | <b>TOTAL</b> | <b>\$52.5</b> |
|--------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------|------------------|-----------|---------|---------|---------|-----------|---------|-----------|---------|-----------|---------|-------------------|-------|---------------|---------|----------|-------|---------------|---------|---------------|---------|---------|---------|-----|---------|-----|----------|-------------------------|-------|--------------|---------------|
| Health Authority               | Surplus(Deficit)                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |                  |                  |           |         |         |         |           |         |           |         |           |         |                   |       |               |         |          |       |               |         |               |         |         |         |     |         |     |          |                         |       |              |               |
| Burntwood                      | \$(1.6)                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |                  |                  |           |         |         |         |           |         |           |         |           |         |                   |       |               |         |          |       |               |         |               |         |         |         |     |         |     |          |                         |       |              |               |
| Central                        | \$(1.2)                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |                  |                  |           |         |         |         |           |         |           |         |           |         |                   |       |               |         |          |       |               |         |               |         |         |         |     |         |     |          |                         |       |              |               |
| Churchill                      | \$(0.2)                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |                  |                  |           |         |         |         |           |         |           |         |           |         |                   |       |               |         |          |       |               |         |               |         |         |         |     |         |     |          |                         |       |              |               |
| Interlake                      | \$(0.4)                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |                  |                  |           |         |         |         |           |         |           |         |           |         |                   |       |               |         |          |       |               |         |               |         |         |         |     |         |     |          |                         |       |              |               |
| Marquette                      | \$(0.8)                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |                  |                  |           |         |         |         |           |         |           |         |           |         |                   |       |               |         |          |       |               |         |               |         |         |         |     |         |     |          |                         |       |              |               |
| Northern Manitoba              | \$0.1                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |                  |                  |           |         |         |         |           |         |           |         |           |         |                   |       |               |         |          |       |               |         |               |         |         |         |     |         |     |          |                         |       |              |               |
| North Eastman                  | \$(1.2)                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |                  |                  |           |         |         |         |           |         |           |         |           |         |                   |       |               |         |          |       |               |         |               |         |         |         |     |         |     |          |                         |       |              |               |
| Parkland                       | \$0.8                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |                  |                  |           |         |         |         |           |         |           |         |           |         |                   |       |               |         |          |       |               |         |               |         |         |         |     |         |     |          |                         |       |              |               |
| South Eastman                  | \$(0.3)                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |                  |                  |           |         |         |         |           |         |           |         |           |         |                   |       |               |         |          |       |               |         |               |         |         |         |     |         |     |          |                         |       |              |               |
| South Westman                  | \$(0.3)                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |                  |                  |           |         |         |         |           |         |           |         |           |         |                   |       |               |         |          |       |               |         |               |         |         |         |     |         |     |          |                         |       |              |               |
| Brandon                        | \$(3.1)                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |                  |                  |           |         |         |         |           |         |           |         |           |         |                   |       |               |         |          |       |               |         |               |         |         |         |     |         |     |          |                         |       |              |               |
| WCA                            | \$(1.3)                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |                  |                  |           |         |         |         |           |         |           |         |           |         |                   |       |               |         |          |       |               |         |               |         |         |         |     |         |     |          |                         |       |              |               |
| WHA                            | \$(44.1)                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |                  |                  |           |         |         |         |           |         |           |         |           |         |                   |       |               |         |          |       |               |         |               |         |         |         |     |         |     |          |                         |       |              |               |
| Anticipated Adjustments        | \$1.1                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |                  |                  |           |         |         |         |           |         |           |         |           |         |                   |       |               |         |          |       |               |         |               |         |         |         |     |         |     |          |                         |       |              |               |
| <b>TOTAL</b>                   | <b>\$52.5</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |                  |                  |           |         |         |         |           |         |           |         |           |         |                   |       |               |         |          |       |               |         |               |         |         |         |     |         |     |          |                         |       |              |               |
| <b>Rationale for Variance</b>  | <p>RHA's have projected their expenditures for the fiscal year to maintain existing and required levels of healthcare services.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |                  |                  |           |         |         |         |           |         |           |         |           |         |                   |       |               |         |          |       |               |         |               |         |         |         |     |         |     |          |                         |       |              |               |
| <b>Evidence for Variance</b>   | <ul style="list-style-type: none"> <li>• Correspondence between Winnipeg Hospital Authority and Manitoba Health during April to July 1999.</li> <li>• Submissions of information and confirmation by individual RHA's.</li> <li>• Summary of Regional Health Authority projections prepared by the Department of Health.</li> </ul>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |                  |                  |           |         |         |         |           |         |           |         |           |         |                   |       |               |         |          |       |               |         |               |         |         |         |     |         |     |          |                         |       |              |               |

|                                                                    |                                                                                                                                                                                                                                                                                               |
|--------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Potential Financial Impact of the Variance for Future Years</b> | The existence of the deficits suggests that expenditure pressures are real and must be actively managed. Based on forward-looking information provided by the Department of Health, the amount of the 1999/2000 projected deficits is expected to be added to the "base" health expenditures. |
| <b>Level of Commitment</b>                                         | RHA's deficits have not yet been approved for funding by Treasury Board. However in the absence of direction from the Department of Health to reduce service levels which would, in turn, reduce expenditures, this overexpenditure is in the process of being "cash flowed" currently.       |

**Variance: Wage Settlements with MNU, CUPE & Other Unions - \$64.1 million**

|                                                                    |                                                                                                                                                                                                                                          |
|--------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Description of Variance</b>                                     | Impact of May and June 1999 negotiated Wage Settlements with Manitoba Nurses Union, Canadian Union of Public Employees and other Unions of \$48.1 million as well as impact of elimination of reduced work week totaling \$16.0 million. |
| <b>Rationale for Variance</b>                                      | Increased salary costs as a result of Negotiated Agreements in 1999/2000 with MNU, CUPE and other unions.                                                                                                                                |
| <b>Evidence for Variance</b>                                       | Department of Health Internal Programs and Operations letter of November 3, 1999; Projected Salary Increases Worksheet; Summary Worksheet of MNU/MNU Related Contract Costs; Highlights of MNU Collective Agreement.                     |
| <b>Potential Financial Impact of the Variance for Future Years</b> | The negotiated and anticipated increases will result in incremental wage costs of \$37.8 million in 2000/2001 and 39.0 million in 2001/2002.                                                                                             |
| <b>Level of Commitment</b>                                         | Payments are required based on labor agreements; Treasury Board has not yet approved the overexpenditure.                                                                                                                                |

**Variance: MMA Settlement - \$27.9 million**

|                                |                                                                                                                                                                                      |
|--------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Description of Variance</b> | Impact of August 1999 arbitration award on medical payments to be made to physicians pursuant to terms of the Manitoba Health agreement with the Manitoba Medical Association (MMA). |
| <b>Rationale for Variance</b>  | Arbitration Award in August 1999 for Fee For Service (FFS) physicians and settlement of agreement for Alternate physicians.                                                          |
| <b>Evidence for Variance</b>   | Arbitration Award in August 1999 for Fee For Service (FFS) physicians and for Alternate physicians.                                                                                  |

|                                                                    |                                                                                                                                                                                                                                                                                                                                                                                                                                                              |
|--------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Potential Financial Impact of the Variance for Future Years</b> | The Arbitration Award awarded FFS physicians' increases totaling \$33.5 million or 13.4% over a four-year period. \$20.4 million of the \$33.5 million will be absorbed in future years. Applying the same increase to Alternate physicians results in total increase of \$13.5 million with \$7.2 million being absorbed in future years. In addition, there will be a \$1 million payment in each of the next two years to a special MMA educational fund. |
| <b>Level of Commitment</b>                                         | The Arbitration Award is binding upon the Department of Health for FFS physicians. Negotiations continue with respect to compensation for alternate physicians and salaried physicians. Projected increases for these groups are calculated based on the binding Arbitration Award. Treasury Board has not yet approved this or expenditure.                                                                                                                 |

**Variance: Canadian Blood Services - \$7.4 million**

|                                                                    |                                                                                                                                                                                                                                                                                                                 |
|--------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Description of Variance</b>                                     | Required Increase in Province of Manitoba's contribution to the Operations of the Canadian Blood Services.                                                                                                                                                                                                      |
| <b>Rationale for Variance</b>                                      | The 1999-2000 Budget of Canadian Blood Services increased by \$120 million as a result of increased spending on Blood Safety programs, Captive Insurance, Fractionation and Contingency Funds. Manitoba's original share of the increase amounted to \$10.1 million. CBS subsequently revised its calculations. |
| <b>Evidence for Variance</b>                                       | Treasury Board Submission Briefing Note.                                                                                                                                                                                                                                                                        |
| <b>Potential Financial Impact of the Variance for Future Years</b> | Variance will be absorbed in current fiscal year.                                                                                                                                                                                                                                                               |
| <b>Level of Commitment</b>                                         | Treasury Board has approved this expenditure.                                                                                                                                                                                                                                                                   |

**Variance: Pharmacare - \$13.1 million**

|                                                                    |                                                                                                                                                                                                                                                          |
|--------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Description of Variance</b>                                     | Impact of increased costs for Pharmacare as a result of increased drug costs and rising volumes.                                                                                                                                                         |
| <b>Rationale for Variance</b>                                      | Number of Beneficiaries (families) and drug costs per beneficiary are in excess of estimates. Factors attributing to increase in drug costs include price increases, change in product mix, new product introduction and increased dispensing fee costs. |
| <b>Evidence for Variance</b>                                       | Manitoba Health Provincial Drug Programs document outlining variance of \$10.8 million. Third quarter cash flow information increased the estimate to \$13.8 million.                                                                                    |
| <b>Potential Financial Impact of the Variance for Future Years</b> | Variance will be absorbed in current fiscal year. Rising costs will be a factor affecting future years.                                                                                                                                                  |

|                            |                                                                                                                 |
|----------------------------|-----------------------------------------------------------------------------------------------------------------|
| <b>Level of Commitment</b> | The funding will flow automatically given that the variance is a result of volume and external price increases. |
|----------------------------|-----------------------------------------------------------------------------------------------------------------|

**Variance: New Government Election Commitments - \$8.7 million**

|                                                                    |                                                                                                                                                           |
|--------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Description of Variance</b>                                     | Projected costs of implementing government promises to "eliminate hallway medicine".                                                                      |
| <b>Rationale for Variance</b>                                      | Costs of initiatives were originally estimated by the Department of Health at \$10 million. Costs to March 31, 2000 are now expected to be \$8.7 million. |
| <b>Evidence for Variance</b>                                       | Treasury Board approval.                                                                                                                                  |
| <b>Potential Financial Impact of the Variance for Future Years</b> | It is anticipated that these costs will be added to the "base" health expenditures.                                                                       |
| <b>Level of Commitment</b>                                         | This variance has been approved by Treasury Board.                                                                                                        |

**Variance: HISM Writedown - \$33.0 million**

|                                                                    |                                                                                                                                                                                                                                                                                        |
|--------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Description of Variance</b>                                     | The Department of Finance has indicated that it intends to record a full provision against the estimated Health Information Network costs (recorded within HISM) of \$33 million. In addition to costs incurred to date, termination of the agreement may have financial implications. |
| <b>Rationale for Variance</b>                                      | The Government has announced that it will not proceed with this initiative.                                                                                                                                                                                                            |
| <b>Evidence for Variance</b>                                       | In the completion of the March 31, 1999 Volume 3 financial statements, costs incurred to that date were fully provided for. The Provincial Comptroller indicates the Province intends to do the same with expenditures in 1999/2000.                                                   |
| <b>Potential Financial Impact of the Variance for Future Years</b> | None                                                                                                                                                                                                                                                                                   |
| <b>Level of Commitment</b>                                         | See "Evidence" above. This provision has not yet been approved by Treasury Board.                                                                                                                                                                                                      |

**12. Highways & Government Services**

No significant variances were identified.

### 13. Industry, Trade and Mines

#### ***Variance: Supplemental Funding for SmartPark - \$2.3 million***

|                                                                           |                                                                                                             |
|---------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------|
| <b><i>Description of Variance</i></b>                                     | The Province will provide \$2.3 million of funding to the Smart Park project at the University of Manitoba. |
| <b><i>Rationale for Variance</i></b>                                      | This funding is consistent with the programs provided by Industry and Trade.                                |
| <b><i>Evidence for Variance</i></b>                                       | Approval by Treasury Board.                                                                                 |
| <b><i>Potential Financial Impact of the Variance for Future Years</i></b> | None.                                                                                                       |
| <b><i>Level of Commitment</i></b>                                         | Approved by Treasury Board.                                                                                 |

### 14. Intergovernmental Affairs

#### ***Variance: Financial Assistance to the City of Winnipeg - \$4.6 million***

|                                                                           |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |
|---------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b><i>Description of the Variance</i></b>                                 | In 1999, the Province assumed responsibility for the delivery of social assistance and public health services from the City of Winnipeg. Though the City delivered these programs previously, the Province had funded them by way of grant. With the transfer of responsibility for delivery, the need for the grant was eliminated. The 1999/2000 budget estimates projected the grant costs until the "cut over" date. In settling upon the final amount due to the City of Winnipeg, the City indicated that based on its records, the Province's quarterly payments were made in arrears rather than in advance of the period. Therefore, the City believed that the Province was required to make one additional \$4.625 million payment. The Province had never considered timing to be an issue. This issue is currently under consideration by the Province. |
| <b><i>Rationale for the variance</i></b>                                  | The Province may decide to make the additional payment to the "cut over date".                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |
| <b><i>Evidence for variance</i></b>                                       | Documentation, as described above, has been compiled by the Department.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |
| <b><i>Potential financial impact of the variance for future years</i></b> | The impact of this variance is limited to the 1999/2000 fiscal year.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |
| <b><i>Level of commitment</i></b>                                         | A Treasury Board submission has been prepared requesting authorization to proceed with this expenditure.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |



**Variance: Winnipeg Development Agreement - \$0.4 million**

|                                                                    |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |
|--------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Description of the Variance</b>                                 | \$375,000 of the difference relates to a capital grant under the Winnipeg Development Agreement for Housing. Treasury Board authorized Manitoba Housing to expend these funds from the WDA allocation. No funding was, however, provided for the project in the 1999/2000 WDA allocation. The former Department of Urban Affairs was unable to accommodate the additional expenditure from within its approved level of WDA funding. Consequently, additional funding to honor this commitment is required. |
| <b>Rationale for the variance</b>                                  | The further \$375,000 expenditure by Manitoba Housing was authorized by Treasury Board.                                                                                                                                                                                                                                                                                                                                                                                                                     |
| <b>Evidence for variance</b>                                       | Internal departmental documentation has been prepared indicating the Department's concurrence with the need to make the payment.                                                                                                                                                                                                                                                                                                                                                                            |
| <b>Potential financial impact of the variance for future years</b> | The impact of this variance is limited to the 1999/2000 fiscal year.                                                                                                                                                                                                                                                                                                                                                                                                                                        |
| <b>Level of commitment</b>                                         | The \$375,000 housing grant was authorized by the Treasury Board as the funding cannot be accommodated within existing estimates. Supplementary estimate request has also been prepared for Treasury Board.                                                                                                                                                                                                                                                                                                 |

**15. Justice**

**Variance: Criminal Justice – 2.2 million**

|                                                                    |                                                                                                                                                                                                                                                                                                               |
|--------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Description of Variance</b>                                     | The variance of \$2.2 million in over expenditures is due largely in part to the following major items:<br><div style="display: flex; justify-content: space-between;"> <div> ➤ Provincial Policing \$0.5<br/> ➤ Justice Initiatives \$1.0 </div> <div> ➤ Prosecutions \$0.6<br/> ➤ Other \$0.1 </div> </div> |
| <b>Rationale for Variance</b>                                      | The over expenditure for Provincial Policing is due to the RCMP security services for the Pan Am Games. Prosecution over expenditure relates to contracted legal counsel and an external review. The balance of the over expenditure related to the Justice Initiatives.                                      |
| <b>Evidence for Variance</b>                                       | The variances are outlined on the 1999/2000 Forecast of Expenditures for the Department of Justice.                                                                                                                                                                                                           |
| <b>Potential Financial Impact of the Variance for Future Years</b> | The expenditures are a one time cost and should not reoccur and will not be built into the expenditure base for future years except for the Prosecution's internal review which will cost \$0.1 million in 2000/01.                                                                                           |
| <b>Level of Commitment</b>                                         | Funding for certain of these commitments has been allocated by way of Enabling Appropriations.                                                                                                                                                                                                                |

**Variance: Civil Justice – (\$1.7) million**

|                                                                    |                                                                                                                                                                                                                                                                                                                                               |
|--------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Description of Variance</b>                                     | The variance of \$1.7 million of under expenditure is due largely in part to the reduction of legal aid expenditures of \$1.3 million, and vacancy surpluses of \$0.4 million.                                                                                                                                                                |
| <b>Rationale for Variance</b>                                      | The under expenditure is due to reduced requirements for legal aid (private bar) to be provided for those individuals that are part of the high security trial. There was a significantly higher number of accused who opted for plea bargains, therefore, there were direct savings of private bar expenditures. The trial was also delayed. |
| <b>Evidence for Variance</b>                                       | This variance is outlined on the 1999/2000 Forecast of Expenditures as provided by the Department of Justice.                                                                                                                                                                                                                                 |
| <b>Potential Financial Impact of the Variance for Future Years</b> | This saving is not built into the expenditure base for future years.                                                                                                                                                                                                                                                                          |
| <b>Level of Commitment</b>                                         | N/A                                                                                                                                                                                                                                                                                                                                           |

**Variance: Corrections - \$5.3 million**

|                                                                    |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |
|--------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Description of Variance</b>                                     | The variance of \$5.3 million in over expenditures is due largely to the following major items:<br><ul style="list-style-type: none"> <li>➤ Adult corrections \$3.6 million</li> <li>➤ Youth corrections \$0.8 million</li> <li>➤ Community Corrections \$0.5 million</li> </ul>                                                                                                                                                                                                    |
| <b>Rationale for Variance</b>                                      | Increased Adult Corrections expenditures of \$3.6 million are due to the increased staffing costs as a result of more employees being required to monitor increased inmate populations.<br><br>Increased Youth Corrections expenditures of \$0.8 million relates to the redeployment of existing staff, as well as, requirements to increase the current staff.<br><br>Increased Community Corrections expenditures of \$0.5 is for fully funded federal youth Justice initiatives. |
| <b>Evidence for Variance</b>                                       | This variance is outlined on the 1999/2000 Forecast of Expenditures as provided by the Department of Justice.                                                                                                                                                                                                                                                                                                                                                                       |
| <b>Potential Financial Impact of the Variance for Future Years</b> | The impact of these variances will be built into the expenditure base for future years.                                                                                                                                                                                                                                                                                                                                                                                             |
| <b>Level of Commitment</b>                                         | Funding for certain of these commitments has been allocated by way of Enabling Appropriations.                                                                                                                                                                                                                                                                                                                                                                                      |

**Variance: Courts - \$1.7 million**

|                                                                    |                                                                                                                                                                                                                                                                                                            |
|--------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Description of Variance</b>                                     | The variance of \$1.7 million in over expenditures is due largely in part to the overexpenditure of \$1.2 million related to Judicial Services.                                                                                                                                                            |
| <b>Rationale for Variance</b>                                      | The over expenditure is a direct result of the pay settlement for Judges and Masters and due to two new judicial appointments for approximately \$0.7 million and \$0.1 million respectively. The balance of the variance relates to the Desk Top Initiative of \$0.2 million and other minor initiatives. |
| <b>Evidence for Variance</b>                                       | This variance is outlined on the 1999/2000 Forecast of Expenditures as provided by the Department of Justice.                                                                                                                                                                                              |
| <b>Potential Financial Impact of the Variance for Future Years</b> | The pay settlement and the two new appointments will be built into the expenditure base for future years.                                                                                                                                                                                                  |
| <b>Level of Commitment</b>                                         | Funding for certain of these commitments has been allocated by way of Enabling Appropriations.                                                                                                                                                                                                             |

16. Labour, Citizenship and Multiculturalism

No significant variances were identified.

**APPENDIX H**

**FUTURE ISSUES AFFECTING OPERATIONS OF  
DEPARTMENTS AND CROWN ORGANIZATIONS:**

**LURKING EXPENDITURES**

## APPENDIX H

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### 1. Aboriginal and Northern Affairs

The following issues could affect future operations:

It is anticipated that third party (e.g. forestry operations) and other interests may arise as a result of obligations entered into by Manitoba under the Treaty Land Entitlement (TLE) framework agreement. Costs could be incurred to address the requirement to compensate forestry companies or municipalities for revenues lost because of the need for the Province to turn over certain lands to First Nations as a result of the TLE framework agreement. The recommended funding for these contingency costs is \$2.5 million. No contingency funds have been allocated to date.

- The Northern Flood Agreement (NFA) provides for certain programs to be funded by the Province and/or Manitoba Hydro. Costs for these programs are provided for negotiated comprehensive implementation agreements. The Cross Lake First Nation has not signed such an agreement which leaves the First Nation in a position to seek an arbitration decision based on the original terms of the NFA. It is uncertain as to what costs the Province might incur as a result of these circumstances.
- In addition, costs of current negotiations with Cross Lake are funded in part by the Province's water power rental agreement with Manitoba Hydro. This agreement expired in September 1999.
- As a result of a previous award by the NFA arbitrator, it is the Province's responsibility for damages associated with not providing an all weather crossing to Cross Lake. One solution to this might involve the construction of a bridge at Pipestone Crossing which would cost approximately \$13 million.
- As part of a different arbitrators award under the NFA, the Province and Manitoba Hydro constructed an arena at Cross Lake and are responsible for ongoing operations and maintenance. The existing trust fund for operations and maintenance must be replenished. The Province's share of the required funding may be approximately \$3 million.
- There are several northern communities that do not have treaty status that are seeking application of the NFA to their circumstances though they are not parties to this agreement. The negotiation costs of the communities and potential settlement costs will be shared by Manitoba and Manitoba Hydro.
- In the event that the Province decides to proceed with the construction of a bridge at Pipestone, it is likely that the community at Norway House would argue that this is a precedent requiring construction of a similar bridge at Sea Falls at a similar cost of \$13 million.



- Grand Rapid Forebay existing obligations for commitments made by the Province and Manitoba Hydro in 1962 are subject to a negotiated settlement currently underway with several First Nations. The costs of the settlement have been addressed under the water power rental agreement. However, the proposed land exchange which will occur as part of the settlement will require surveying by the Province. It is anticipated that the Department would fund these surveys which have been estimated to cost \$500,000 over two years.
- The establishment of an all weather road up the east side of Lake Winnipeg is considered to be an important opportunity that may create economic benefit as well as business opportunities for remotely located aboriginal communities. Preliminary estimates for this project have ranged as high as \$200 million.
- The provincial and federal governments are currently negotiating with the objective of transferring jurisdictional control and authority of the community of South Indian Lake from the Province to the Federal Government. If successful, the result of this transfer of control and authority would be to transfer costs associated with agreements with this First Nations entirely to the Federal Government. In the absence of such an agreement, the Province would continue to be responsible for various costs associated with the South Indian Lake Community.
- The Peguis First Nation TLE claim was validated by the Federal Government in 1998. As part of the agreement, Manitoba will be obliged to provide certain Crown land to the First Nation. It is anticipated that the only financial provision that may impact the Province would be associated with the municipal tax loss if the lands included in the settlement are revenue bearing for a municipality.
- The Department has prepared a preliminary list of priority projects related primarily to the quality of drinking water and community roads. The cost of the projects included on the list amounts to \$17.4 million which is substantially in excess of the current level of funds provided for community infrastructure programs.
- A variety of aboriginal development programs have been developed. The cost of these programs included in the current 1999/2000 approved expenditures amount to approximately \$0.9 million. The proposed programming for 2000/2001 related to this initiative would be an additional \$2.0 million. The costs of these programs have not been included in the Department's projections for future years.

## 2. Communities Economic Development Fund

The Fund has loan portfolio values approaching \$25.0 million (before allowances). Loans typically are limited by the market and are usually no larger than \$750,000 to \$850,000. The Province of Manitoba funds these loans and expects to be repaid. Authority under the business loan was raised from \$7.0 to \$12.0 Million in 1994 and then to the current maximum level of \$15.0 million. The fisheries loan portfolio maximum was increased from \$10.0 million to \$12.0 million.

There are several industry specific components of the loan portfolio. For example the forest sector accounts for 45% or approximately \$7 million of loans related to business loans. A downturn in the economy could impact the value of these loans. The Fund practices aggressive valuation of its portfolio. Each quarter management reviews all accounts. Usually 15-24% of portfolio is in arrears, which is consistent with historical experience. Management advises that the provision for doubtful accounts on the business loan portfolio is currently 17.7% of the value of loan advances outstanding while loan loss experience in recent years is less than 7% of loans advanced. Despite the need for supplemental budget funding in the amount of \$300,000 during the current fiscal year to provide additional reserves, the corporation does not anticipate any further losses beyond budgeted levels.

The trends related to the business loans have been consistent, but the fisheries loans are more problematic. Payments are up over the last 15 months due to a turnaround in the fishery, but the portfolio remains high risk. During the fiscal year ended March 1999, additional allowance was provided to increase the overall provision for doubtful accounts to 29% of the total portfolio. A significant downturn in the industry, as experienced in 1998, would once again leave the portfolio overvalued, resulting in the need for additional resources. The bad debt provision for the year is expected to be \$825,000 in total, \$250,000 in the fish loan program and \$575,000 in the business loan program.

The Fund has recorded the pension plan liability and costs at year-end, but that the Province has not funded the pension plan. Therefore the fund is showing an offsetting receivable from Province.

### 3. Agriculture and Food

- The department indicated that the demand for MACC services is increasing and that there is a need for increased staffing by 20-30 FTE's. This is due to the gap created by traditional financial institution lenders leaving the farming sector or concentrating on the larger agricultural corporations.
- There are several possible or actual legal claims against the Department. Negotiations to resolve the actual claims at minimal cost to the Department are continuing.
- Existing federal/provincial safety net agreements expire in 2000. Negotiations directed toward a new agreement are underway.
- The determination of the actual costs of AIDA programs is complex. Factors creating this complexity include:
  - the time lag from the end of the calendar year to the submission date and then the processing of claims;
  - the fact that certain of the 1999 flood assistance payments reduce AIDA entitlements;
  - AIDA advances to producers were funded by the federal government for 1998.

- The Department continues to pursue additional federal funding to share in the costs of flood assistance. To date, no additional revenues have been recorded.

#### 4. Manitoba Agricultural Credit Corp.

MACC has identified the fact due to the poor economy, traditional lenders are moving out of farming loans or concentrating on the top 20-30% of producers. MACC feels that there will be future pressure to find ways to encourage traditional lenders to continue to lend to farmers. In order to do this MACC may need to increase the level of their guarantee program or perform the lending function directly. In either case there would be demand for funding to fill the gap if traditional lenders continue to move away from farming loans.

MACC indicated that the value of the security held on the loans will be affected by the continued down turn in the farming economy. Consistently lower prices for crops will impact the values of the land held for security purposes and could impair the value of the loans and increase the overall loan risk. MACC reviews individual loans annually to determine if its provision for uncollectible loans is adequate.

MACC has provided for losses on guaranteed loans and on direct loans to producers. The forecast for 2000/2001 and 2001/2002 fiscal years anticipates increased loan losses due to poor economic conditions.

#### 5. Manitoba Crop Insurance Corp.

Existing federal/provincial safety net agreements expire in 2000. Negotiations directed toward a new agreement are underway.

#### 6. Civil Service Commission

- Currently a \$2.8 billion unfunded actuarial liability exists which is made up of \$1.1 and \$1.5 billion from the Civil Service and the Manitoba Teachers pension plans. The provincial government currently funds only the current cash cost of required annual pension payments to retirees. An equivalent amount is recorded as the Province's annual expense in Volume I financial statements. In the absence of a plan to begin funding this actuarial liability, the unfunded amount will continue to grow.
- A new agreement between the Province and MGEU will be negotiated to be effective April 2000. Any wage settlement that includes salary increases will increase expenditure pressures. For illustrative purposes, the cost of a settlement containing wage increase provisions of 2% per year for three years would be \$14, \$28 and \$43 million respectively in each of the next three years.

## 7. Conservation

The department is facing the issue of funding the estimated costs of flood proofing for homes and businesses which exceed the program maximum committed funding by an estimated \$13.6 million. The department indicated that they were considering the potential to further negotiate with the Government of Canada. Further, there is some question as to the ability of the municipalities to fund their portion of the community diking program. Under this program the costs are to be funded by the province, Government of Canada and the municipalities on a 45%/45%/10% basis respectively. The department raised the issue that many of the municipalities could not raise the funds to cover their 10% of the cost. Ultimately the department feels that the ring dike projects must be completed and that the municipalities would need to raise their portion of the funding.

The department has indicated that there are lawsuits outstanding for an estimated amount of \$66.9 million.

## 8. Consumer and Corporate Affairs

None identified.

## 9. Culture, Heritage and Tourism

- The department has committed to loan guarantee agreements with the Winnipeg Symphony Orchestra for \$1.0 million and the Manitoba Opera Association for \$285.0 to assist these organizations in stabilizing their financial affairs. The department has also entered into a loan agreement with the Manitoba Theatre for Young People for \$1.1 million to assist the organization in financing its new facility. The department will continue to closely monitor the financial status of these organizations in context of the terms of the loan agreements.
- The department identified a potential need for a new or expanded Government Records Centre due to increased volumes of paper records. The department indicated that the amount of paper documents is growing and that new facilities would be needed to for storage. In addition, the lease of a shared facility with the Government of Canada will expire in August of the coming year. The estimated cost for a new facility could be as much as \$5.0 million.
- It is anticipated that requests for additional support and assistance from Arts groups will continue in the future.

## 10. Education and Training

- Canada's financial lending institutions have signalled that they may not agree to continue the existing student financial assistance arrangements. As a consequence, the financial assistance programs may need to be restructured in a way which increases the cost of the program to the Province of Manitoba. This situation could translate into increased expenditures of approximately \$7.5 million beginning in the year ended March 31, 2001.

- The Public Schools Finance Board has identified in excess of 350 older school buildings that have significant architectural, electrical, mechanical and other structural issues that need to be addressed. A special six year program to address this issue was approved by the Treasury Board totalling \$60 million for debenture projects for the years 1998/1999 through 2003/2004. This issue has been complicated by increasing construction market costs of between 15 and 25%. Public Schools Finance Board, as documented in more detail in our report on that Crown organization, questions whether this level of funding is sufficient to deal with these infrastructural issues.
- Negotiations are underway regarding a renewed Federal Provincial agreement to provide la Division Scolaire Franco-Manitobaine with funding to a maximum of \$4.0 million annually over five years to be cost shared equally between the two levels of Government. Any amounts funded under such an agreement would be in addition to funds currently provided through the Schools Finance Program.
- Operating budgets of institutions are impacted by increasing technology demands, limited flexibility arising from long term collective agreements and escalating operating costs. These pressures are compounded by the cut-backs in expenditures which the institutions have been required to make in recent years.
- The Council on Post Secondary Education (COPSE) has estimated, based on input from the universities, that the deferred maintenance for the universities alone amounts to approximately \$200 million. Government Services Manitoba is involved in assessing the importance of projects and the allocation of COPSE's limited maintenance dollars. Maintenance on college facilities is the responsibility of the Department of Highways and Government Services, which indicates that it too has limited funding available for capital projects. All of the institutions indicate that they require substantial capital and maintenance funding.
- Potential new policy initiatives like a Northern post-secondary institution or pursuit of new urban initiatives would add to the Department's expenditures.
- The existing Labour Market Development Agreement with the federal government must be renegotiated. The Department hopes to secure greater flexibility in how funds provided under this program can be spent.

#### 11. Council on Post Secondary Education

The following issues will affect future operations.

##### General

- The universities have varying degrees of dependence on tuition fees, with the University of Winnipeg being highest with approximately 45% of its revenues coming from tuition fees. As a result, different institutions are affected differently by provincial direction on the level of tuition fee increases which are permissible.



- The degree to which individual institutions are responsible for sharing in the costs of new buildings varies between institutions ranging from 10% at Brandon University to 33.3% at the University of Manitoba. Consequently, each institution's ability to address capital concerns depends not only on its ability to raise funds but on its current cost sharing arrangements with the Province.
- Operating budgets of institutions are impacted by increasing technology demands, limited flexibility arising from long term collective agreements and escalating operating costs. These pressures are compounded by the cut-backs in expenditures which the institutions have been required to make in recent years.

### Institution Related Issues

#### *1. University of Manitoba*

- As a result of recent adjustments of market value assessments, the University of Manitoba's property taxes have increased without an offsetting increase in funding. This disparity will continue to grow as new buildings come on stream. The cost of this item is projected to be approximately \$3 - \$4 million per year, commencing in 2000/2001. In 1999/2000, cost exceeds grant by \$1.6 million.
- Research is an important activity for the University. Research funding covers only direct costs of projects. The University must fund indirect/infrastructures costs of research. These are substantial and increasing, amounting to 40% of research funding.

#### *2. The University of Winnipeg*

- Has financial challenges as a result of having run deficits over the past several years.
- Cost constraints have resulted in the University having the highest percentage of sessional lectures as a total of teaching staff of any Manitoba institution.
- Continues to believe that it is underfunded as a result of historical funding arrangements with inadequate subsequent positive adjustment.

#### *3. Brandon University*

- Enrolments have declined over the last two years.
- Costs and staff levels have been reduced to "unsustainable levels".

#### *4. Keewatin Community College*

- As a result of financial management challenges, the institution is in a deficit position. A deficit management plan has been put in place.

5. *Red River College and Assiniboine Community College*

- Each institution is in need of support for technology issues, either administrative areas or in educational areas.
- Both institutions believe that their facilities need to be upgraded and expanded in order to deliver the educational programs which are being required of them.

12. Public Schools Finance Board

The Public Schools Finance Board has identified the following key strategic issues that will impact the requests for capital spending in the future:

- Costs of construction are rising not only due to inflation but also on account of improved construction market conditions which has led to price increases.
- Expectations of school communities are increasing related to the quality of the learning environment and the nature of facilities. Consequently, there continues to be increasing pressure to add design features which add significantly to the cost of facilities. This can be a particularly pressing issue where there is considerable local autonomy in the design of facilities.
- Most of Manitoba's schools were built between 1946 and 1964. Consequently, these buildings, which are between 35 and 55 years old are experiencing expiring systems such as roofs, boilers, pipes, windows, etc. Repair and upgrade expenditures are expected to increase in the future.
- There is a general feeling that minor capital items in schools are underfunded. PSFB believes that if these minor capital repairs cannot be addressed and situations are left unattended, they can escalate to more significant and expensive repair situations.
- The government's new Child Care Policy will result in more day care centres being incorporated as part of school projects. Construction of such facilities will add to capital cost requirements in the future.
- The number of special needs students in schools has increased over the past decade together with the severity of disabilities with which these students live. Consequently, there is increased requirement for access facilities and special educational services.
- Program changes to facilitate the introduction of computer technology into schools impacts both on the size and configuration of schools as well as the consumption of paper and space. Some school divisions are calling for larger classrooms to accommodate computer technology. The related power ventilation and lighting requirements can also significantly impact the capital cost of schools.

- There are about 150 schools in Manitoba that have less than 150 students. Many of these are in rural or older urban areas. The impact of future decisions by school divisions to continue operating these schools or close them will impact both the cost of repairing and maintaining these facilities or alternatively, expanding larger school facilities to which students currently attending these smaller schools might be transferred to.
- As older schools are upgraded or renovated, it becomes necessary to upgrade many of the features of the facility to meet existing building codes which are often related to safety, fire protection and access issues. Upgrading to existing code levels will impact the capital requirements for schools.

Schools Finance Branch has identified the following pressures on operating expenditures.

- increased adult education enrollment;
- teachers salaries which are negotiated on a division by division basis continue to increase over time;
- the demand for information technology facilities and program expansion is continuing to grow;
- the cost of operations and maintenance in older school buildings is increasing;
- existing funding arrangements for special needs students will result in funding increases in the future to accommodate the increased number of such students.

## 12. "Family Services" Component, including Child and Family Services Agencies of Family Services and Housing

### Employment and Income Assistance

Income assistance constitutes approximately one half of the budget. Indexing of benefits has not occurred since 1992. The current benefits provided are not tied to the consumer price index, which has frozen benefits and, in effect, reduced spending power by recipients by 16%. Family Services has estimated that an adjustment could cost \$27.7 million.

Family Services has been experiencing a declining caseload of income assistance cases due to active job placement measures and a good economy. The number of individuals receiving assistance has dropped from approximately 82,000 to 69,000 since March 1995. The rate of decline of income assistance cases will reduce since remaining individuals are more difficult to place.

During the current fiscal year, the City of Winnipeg Social Services was combined with the Department of Family Services to create a "One Tier" income delivery system. The change to a one-tier system is anticipated to have no impact on the expenditure estimates for 2000/2001.

### Community Living

Family Services indicated that community-based services for adults with a mental disability have expanded significantly in recent years in response to growing demands for residential, day and support services. Further, there is an anticipated volume of mentally disabled children currently living with family or attending school who will need to be integrated into the adult services

system. There is strong salary pressure in this area as agencies are finding it increasingly difficult to retain and hire qualified staff to provide these services. Family Services is anticipating increases in future costs in this area.

### Child and Family Services

Family Services is multifaceted and provides direct service and contract services with external agencies. External agencies can significantly impact the level of expenditures required by Family Services to provide services. Third party agencies are a major cost factor for child care expenditures. The most significant agency is Winnipeg Child and Family Services, which has consistently run deficits in prior years. Family Services finances these deficits over and above the agencies budgeted expenditures. This agency is expecting a \$5.2 million over expenditure in the current year.

Although the caseload has declined slightly the costs of serving children has increased. The Department feels that Winnipeg Child and Family Services will continue to experience cost pressures. The management of the agency has changed and a new board has been established.

There is a potential increase in Winnipeg Child and Family Services for First Nations children. At present, children who reside on a reserve are the responsibility of the federal government. However, some of these children become the responsibility of the Province when parents leave the reserve. The trend is increasing due to First Nations individuals moving from the reserves to the City of Winnipeg.

Other Child and Family Services Agencies in rural Manitoba have smaller deficits under \$1 million. These agencies are experiencing the same trend as above. The information flow for each of the agencies, except for Winnipeg Child and Family Services, have historically been on or close to budget. The agencies report on a monthly basis depending on their size and sometimes only annually if small and non-complex. The Winnipeg Agency is monitored quite closely. The \$5.2 million deficit for 1999-2000 is based on the August statement. More recent discussions held by Department of Family Services officials with Winnipeg Child and Family Services personnel indicates that this estimate of \$5.2 million will not be exceeded.

Family Services identified that Child Day Care facilities are experiencing major labour force skill shortages as a direct result of continuing low wages. In addition, there continues to be an increase in demand for additional subsidized spaces and supports for children with disabilities.

### 14. "Housing" Component and Manitoba Housing Rehabilitation Corp. (Contractor Prepared)

#### The Manitoba Housing and Renewal Corporation (The MHRC) – Modernization and Improvement Plan

It should be noted that The MHRC in its annual estimate process provides for normal day to day operating maintenance and a separate line item for modernization and improvement work required for its housing portfolio. Modernization and improvement expenditures are considered major capital items.

In addition to the funding provided through the estimate process, The MHRC has set aside a provision for modernization and improvement which allows it to address work required to an



ageing housing stock, and emergency and unforeseen expenditures. The Province contributed \$10 million in 1996/97 and \$5 million in 1997/98 to the Modernization and Improvement Plan. The federal government contributed a matching \$15 million in 1998/99 (outside the Social Housing Agreement) to provide total "seed" money of \$30 million for a long-term approach to improve the condition of the housing stock.

For 1999/00, \$6.056 million has been budgeted for modernization and improvement expenditures with an additional \$5.152 million in special modernization and improvement expenditures. For 2000/01, \$6.602 million and \$3.0 million have been budgeted for respectively. As part of The MHRC's long term approach to this issue, a comprehensive 10-year Modernization and Improvement Plan that schedules major capital work for every project in the housing portfolio has been prepared. The 10-year plan calls for a total of \$88.6 million to be spent for the period of 2001/02 to 2010/11.

To fund the Modernization and Improvement Plan, \$10.0 million of the \$30.0 million has already been set aside to fund the special modernization and improvement expenditures for 1998/99 to 2000/01. The remaining \$20.0 million will be allocated with \$4.0 million in each of the first five years of the 10-year plan. This leaves a total of approximately \$7.0 million to be committed in annual estimates to the completion of the 10-year plan.

#### Social Housing Agreement

On September 3, 1998, The Manitoba Housing and Renewal Corporation (The MHRC) signed a new Social Housing Agreement (SHA) with Canada Mortgage and Housing Corporation (CMHC), to take effect October 1, 1998. The SHA governs the administration of all existing social housing in Manitoba, including public housing owned by The MHRC and units owned and operated by non-profit housing corporations. Under this Agreement, The MHRC will receive annual funding from CMHC to support the administration and operation of the combined federal/provincial housing portfolio, commencing at an annual level of approximately \$75 million, and declining on an annual basis as subsidy agreements expire (with the last one expiring in 2031). The Agreement provides the province with greater flexibility to address housing needs in Manitoba. This means that savings generated by The MHRC through cost reductions and efficient management and administration of the portfolio will remain with The MHRC. The federal savings, are identified in The MHRC's financial statements as "deferred federal contributions", and may be carried over from year to year and used for housing within the framework of broad principles laid out in the Agreement. The MHRC will have the ability to use these savings to modify programs or develop new programs to address local housing issues. The "deferred federal contribution" for 1998/99 was \$6.3 million with a projected savings of \$4.4 million for 1999/00 and an additional amount of \$1.8 million under The MHRC transfer payments. It is anticipated that the savings will be in the early years of the agreement.

Under the agreement, CMHC made a one-time payment of \$12.7 million to The MHRC. This amount was provided for the purpose of mitigating future operating risks associated with The MHRC's financial responsibility for housing programs transferred from CMHC pursuant to the agreement. The one-time payment is comprised of two amounts: \$7.9 million represents an allocation of Manitoba's proportionate share of insured projects in CMHC's national Mortgage Insurance Fund (under the Agreement, The MHRC assumes responsibility for future mortgage defaults associated with an insured mortgage portfolio of approximately \$329.0 million), and



\$4.8 million provides funding to address future inflationary cost increases and changes in interest rates. The \$12.7 million has been recorded as a risk reserve fund and is increased by interest earned thereon and is reduced as The MHRC incurs expenses as a result of the identified risks.

## 15. Finance

The following items have been identified as having a potential impact on the Province's future operations:

- The government's strategy and policy decisions with respect to the Province's information technology initiatives will determine the nature of activities performed by the Office of the Chief Information Officer. The costs associated with the operations of this office may fluctuate as a result of decisions in this area.
- Approximately 20 percent of the Province's public debt is denominated in U.S. dollars. While the Treasury Division of the Department of Finance uses derivative financial instruments to fix the exchange rate on these instruments to the extent possible, changes in the Canada / U.S. foreign exchange rate will have an impact on the Province's borrowing costs. Depending upon the nature of the hedging strategy employed and the actual amount of fluctuation in the exchange rate, the impact on borrowing costs could be significant.
- The government's election promise with respect to property tax relief will impact the cost of net tax credit programs. If implemented, the amount of the impact would be determined by the nature and amount of the relief put in place by the government.

## 16. Government Information Systems Management Organization Inc.

GISMO's deferred development costs of March 31, 1999 include \$16.3 million of investment in Health Information Services of Manitoba Corporation (HISM). HISM is the entity pursuing the health information network project in conjunction with Smart Health, the Province's supplier on this initiative. It is anticipated that prior to March 31, 2000, the Department of Finance of the Province of Manitoba will conclude that since it is unclear whether the government will choose to move forward and use the results of this initiative in its future technology endeavors, a valuation allowance for the full amount of this investment (plus additional investments since March 31, 1999) should be made.

## 17. Special Operating Agencies Financing Authority

The following items may have an impact on the future operations of the SOA Financing Authority:

- Several segments of government have been identified as prospective SOAs. These include Driver and Vehicle Licencing, Accommodation Development and Workplace Safety and Health. Creation of new SOAs for these or other areas would result in the expansion of the SOA Financing Authority activities and would presumably add additional net income each year.

- The transfer of surplus funds to the Province of Manitoba has increased from \$1.0 million in 1997 to \$4.5 million in 1998 and \$8.0 million in 1999. These revenue sharing amounts/transfers are determined for each individual SOA.

In some instances, the revenue sharing amount which is being transferred or projected for 1999/2000, exceeds the net income which will be generated by the SOA. In other circumstances, we are advised that the amount of the transfer exceeds the amount of cash flow generated by the annual profits, less the amount of the profits to be reinvested in the business of the SOA.

Continued transfers or revenue sharing in excess of cash flow generated by SOAs is not a sustainable situation. A balanced approach will need to be taken between "harvesting" surplus cash flow for contribution to the Province's operating fund and retaining sufficient working capital within individual SOAs so as to enable them to sustain and expand their operation.

#### 18. Health and Health Services Insurance Fund

- Pressures for increased current expenditure on health programs as well as for substantial new capital spending are expected to continue mounting. In the case of capital programs, approvals granted in any particular year commit future departmental expenditures to support required debt service payments and operating expenditures related to new facilities.
- The Department has estimated that Information Technology expenditures in the range of \$400 to \$500 million are required to provide information-processing applications to provide the functions that are in the mandates of the Winnipeg Hospital Authority. This estimate arises as the result of a consultant's study of WHA's needs and requirements.
- The Department indicated concern regarding the Urban Shared Services Corporation (USSC) food distribution system. The original agreement with Newcourt Credit to finance the construction of the facility calls for payments to Newcourt regardless of whether the facility is in operation. This debt receivable position has been purchased by the Province of Manitoba from Newcourt. A portion of the deficits in the WHA relates to payments made by certain hospitals to ensure that debt service payments are made notwithstanding that food distribution services are not yet being provided to all facilities as originally envisioned.
- The department believes that revisions to the USSC distribution system will result in increased costs which will appear in the deficits of the WHA.
- Ongoing labor negotiations are continuing with certain bargaining units at particular facilities.

## 19. Health Information Systems Management (HISM) Inc.

HISM's contract with Smart Health Inc. was for a maximum of \$100 million of expenditures or a five year duration, whichever came first. HISM's expenditures on the project are considerably below the \$100 million limit and the five year period continues until 2000.

In addition, there have been disagreements between representatives of the Province's Department of Health and Smart Health regarding the authority under which certain of the work undertaken by Smart Health was performed and the value of the work that has been completed.

These issues are being discussed within the terms of the original agreement between the Province and Smart Health. Given the size and nature of this contract, the resolution of these circumstances may further impact the Province's future operations and financial obligations.

The Department of Health will likely choose to proceed with a new direction in health information. The compatibility of the new system and the product of SmartHealth Inc. to date, which is not known at the present time, will probably influence the utility of what has been created. This will have an impact on the final costs to the Province.

## 20. Manitoba Cancer Treatment and Research Foundation

### Capital Campaign

MCTRF is currently working to complete its fund raising campaign so that the construction of its new facility will be fully funded. The total capital cost budgeted for this facility is \$49.4 million. This amount is funded by Manitoba Health in the amount of \$31.1 million and by funds raised by MCTRF in the amount of \$18.3 million.

The allocation of these capital funds to MCTRF has been included in the Department of Health's longer term capital plans.

The Department of Health has been informed via the Regional Health Plan of the ongoing operations costs of the new facility, estimated at an annual cost of \$2 million beginning 2000/01.

### Operating Funding

The initiation and development of new programs will present additional requests to Manitoba Health for funding. Currently, the most significant additional program being contemplated is a prostate program at an annual cost of \$1.6 million beginning in 2001/2002.

## 21. Highways & Government Services

The following issues will affect the operations of the department:

### Highways Programs

- The annual replacement budget for Highways equipment amounts to \$1.3 million. A recent consultant's review indicated that the fleet is old and poses a risk to future service delivery capability. In addition, equipment maintenance costs are escalating. The aggregate replacement cost of the entire fleet is estimated at \$100 million. The department is continuing to consider options for replacement of the equipment fleet.
- The Highways maintenance budget is approximately \$60 million per year. Increasing commercial pressures and public expectations, combined with the increased age of Manitoba roadways and the increasing age of the maintenance equipment fleet results in escalating maintenance costs. The Department estimates that the shortfall between required maintenance funding and the existing maintenance allocation is approximately \$17 million per year.
- The Department estimates that almost 40 percent of the Province's highway system is either now deficient or will become deficient within five years. The Department believes that additional rehabilitation funding of approximately \$60 million per year is needed over and above the existing capital budget of \$100 million per year to sustain the system at existing service levels. It is believed that a further additional \$20 million per year is needed to enhance the system to support increasing heavy vehicle traffic.

### Government Services Programs

- It is anticipated that telecommunications costs could increase in the range of \$0.5 million per year over each of the next three to four years as a result of the variety of increased technology initiatives undertaken by the Province.
- The average age of buildings administered by Government Services is between 35 and 40 years. The annual allocation for repair and maintenance is approximately \$1 million. The Department is of the view that a budget of \$4 to \$5 million per year is needed to handle ongoing maintenance and repair requirements. This issue is complicated by the fact that in prior years, before the movement to capitalization of fixed assets, the Department could, as necessary, reallocate capital funds into repair and maintenance. As capital funds are now budgeted separately, such a transfer is not as easily possible.
- The stonework on the legislative building is in need of repair. The estimated cost of this significant project is \$7 to \$8 million.
- As Manitoba properties are disposed of, the difference between the proceeds of disposition and the carrying value of the assets in the government's financial records will result in either a gain or a loss. There are several properties that are currently being contemplated for disposition. The Department has not reviewed whether the disposition of these properties at

the current asking price will result in a loss, that it might occur, a provision for such loss should be accrued at the time of the decision to dispose of the property.

## 22. Industry, Trade and Mines

The following issues might affect future operations and expenditures:

- Under mine closure regulations which became effective in May 1999, mining companies are liable for the rehabilitation of all mine sites under their ownership. Where ownership has reverted back to the Crown (i.e. orphan mine sites), responsibility for rehabilitation falls to the Crown. A number of mine sites have been identified which require rehabilitation for both safety and environmental reasons. Funding requirements for these could be between \$1 and \$10 million over the next two fiscal periods.
- The Mining Community Reserve (MCR) is administered through the Department and is governed through the Mining Tax Act. The MCR was established in 1977 to assist mining communities which may be experiencing undue hardship due to closure/shutdown of an operating mine. Given the tentative status of the mines located at Lynn Lake and Leaf Rapids, it is possible that the MCR could face significant commitments within the next 2 to 3 years.

## 23. Manitoba Development Corporation and Manitoba Trading and Investment Corporation

The primary risk with respect to future years operations lies in the collectibility of the loan portfolio. As described in the preceding section, investment valuation allowances are made as thought to be necessary. The Department monitors individual loans, with particular focus on new investments, especially large investments, and those investments where circumstances suggest that the Department's degree of certainty related to the collection of the investment is deteriorating.

## 24. Economic Innovation and Technology Council

### *Economic Innovation and Technology Fund*

This Fund was established as a notional allocation of a \$10 million component of the Fiscal Stabilization Fund. This \$10 million component was to be used over a period of time, as approved by Treasury Board, to assist EITC in pursuing its objectives through the support of particular projects. A history of the Fund to date is as follows:

|                                                             |               |
|-------------------------------------------------------------|---------------|
|                                                             |               |
| <b><i>Original EIT Fund Authority</i></b>                   | <b>\$10.0</b> |
| <b><i>Expenditures in 1998/1999 and prior years</i></b>     | <b>(2.1)</b>  |
| <b><i>Approved expenditures during the current year</i></b> | <b>(3.7)</b>  |
| <b><i>Remaining Authority</i></b>                           | <b>\$4.2</b>  |



EITC has identified \$0.3 million of additional projects which it believes could be appropriately funded from the remaining EIT Fund in the current fiscal year.

The following projects and/or circumstances have been identified where there might be a request for the Province to consider funding initiatives where the initiative might conceivably be funded by the EIT Fund:

- It is anticipated that the Manitoba Innovation Network will request \$2 million from the Province of Manitoba for the development of the Innovation Corridor. The Innovation Corridor is a proposed project located in the Exchange District that would provide inexpensive occupancy, access to shared high tech resources and strategic guidance on the development of high-tech enterprises.
- A number of organizations are working on the "Manitoba Centre of Knowledge" Project which would be located on the current site of the Centennial Library. Proponents of the project include Manitoba's three universities, Red River Community College, The City of Winnipeg and EITC. The centre would provide a variety of knowledge and interaction tools for use by citizens. It is anticipated that the Province will be approached with a request to fund \$6 million of the aggregate \$37 million project cost.
- Several Manitoba organizations applied to a federal program called the Smart Communities Program and three projects have been approached to move to Stage 2. One of the organizations will be selected for funding by the federal government. The funding provided by the federal government is to be provided on a matching basis. It is expected that the successful proponent will be requesting \$5 million in matching funds from the Province over a three year period.
- A group of high tech organizations is working together to develop a Reality Centre which would provide manufacturing and new media companies with integrated hardware and software tools to improve and building on their product development and manufacturing processes. It is anticipated that the Province of Manitoba will be asked to contribute between \$1.0 and \$1.2 million to this project.

#### Manitoba Innovations Fund

In the 1998/99 budget, the Province indicated that it would provide \$7 million annually over a period of 5 years to support the Manitoba Innovations Fund. To date, \$11.5 million of projects have been approved by the Economic Development Board of the former government. The commitment for these amounts is spread over the 1999/2000 to 2003/2004 fiscal years.

Accordingly \$23.5 million of the original fund contribution remains unallocated. However the allocation of funds was formerly done by the Economic Board of Cabinet. The current government has not provided for the appointment of such a Board.

EITC is aware of the following circumstances which could be presented to the government as requests to draw upon these funds:

- The Canadian Foundation for Innovation is an independent private non-profit corporation established by the federal government in 1997 with a mandate to invest in infrastructure for research and development in Canadian post-secondary institutions, hospitals and non-profit research institutions. The Foundation typically provides up to 40% of costs where the Province provides 40% matching funding with the institution providing the remainder of the funding. It is estimated that up to \$7 million per year for the next three years could be required to support Manitoba projects that are to be presented for CFI funding.
- The federal government announced a substantial Canadian Institute of Health Research Program. It is estimated by Manitoba's universities that potential projects under this program, if approved, would require about \$2 million in provincial matching funds over each of the next two years.
- The Canadian Light Sources Project is a new high-tech facility owned and operated by the University of Saskatchewan. It will serve the research needs of Canadian universities, industry, scientific institutions and governments. It is anticipated that the Province will be requested to contribute \$1.0 million per year at the beginning of 2000/2001 towards the operating costs of the facility.

## 25. Intergovernmental Affairs

The following items are anticipated to have impact on the Department's future operations and expenditure planning:

- Urban Capital Projects Allocation (UCPA) – The City of Winnipeg's projections to September 30, 1999 indicate that 1999/2000 UCPA claim to the Province could total almost \$26 million. This substantially exceeds the UCPA budget by \$7.3 million. While the projected submission may be high, it is likely that much of the excess request may be delayed until 2000/2001. Given the potential magnitude of the carryover commitments, there would be little opportunity to contemplate new submissions in that year.
- Recommendations of the Rural Business Task Force – This task force provided recommendations to the Province regarding proposed support to the business community as a result of the 1999 flood conditions in southwestern Manitoba. The cost of implementing the Task Force recommendations could total approximately \$8.4 million. This issue is currently under review by government.
- The 1999/2000 Rural Economic Development Initiatives program budget is essentially fully committed. Additional projects which are approved would need to be funded from future years program budgets unless additional funding is provided for in the current year.
- Operating grants to the City of Winnipeg – Funding levels for current programs have been held constant for the past several years. The City's costs, which are notionally subsidized by these grants have been increasing. Therefore, the City may request increased funding in these areas.

- Major new economic development initiatives – As a result of the maturity of the Rural Economic Development Initiatives, it is anticipated that a substantial portion of the regular annual funding of this program is required for ongoing programming. This leaves little flexibility to accommodate any major initiatives which arise. Such initiatives may need to be funded with additional expenditure approvals.
- Sewer and Water issues
  - City of Winnipeg – the City is currently examining options for improving its water treatment plant. The Province may be asked to assist in funding such a project.
  - The Manitoba Water Services Board, as part of its long-range capital plan, has identified approximately \$400 million of required infrastructure work. The Province's current funding allocation to the Board of \$12 million, together with cost shared federal and municipal funding, make the annual budget for capital works approximately \$30 million. A component of these identified capital needs is the development of rural water lines to supply potable water in rural Manitoba. Pressures from municipalities to deal with a significant number of the projects within the capital plan in the short term are increasing.
  - Value Added Initiative – the pursuit of various value added agricultural industries has substantially increased the rural requirements for water supply and waste water treatment. Similar needs exist with respect to livestock and irrigation initiatives. Formerly, such requirements were funded through the now expired Partnership Agreement for Municipal Water Infrastructure (PAMWI). The Province has approached the Federal Government to negotiate a new federal/provincial agreement to address some of these outstanding requirements.
  - Renegotiation of federal/provincial agreements currently managed by the Department will result in additional new expenditures as existing agreements wind down.

## 26. Manitoba Water Services Board

The following matters will impact future operations of MWSB and the requests for funding which it might make in the future to the Department of Intergovernmental Affairs.

- Demand for conservation grant funding by municipalities is anticipated to increase. Such projects are shared on a 75:25 basis with the municipality paying the smaller amount. Expenditures for conservation districts are projected to increase by 12.3% and 39.5% respectively in the 2000/2001 and 2001/2002 fiscal years.
- As described earlier in this report, water and sewer infrastructure projects of approximately \$30 million are planned and managed each year. As part of its ongoing activities MWSB prepares a long range capital plan to oversee the prioritization and allocation of capital dollars to project requests submitted by municipalities. Each municipality has supplied its own five year view. The current aggregate requirement to meet all requests from municipalities over the next five year period would require approximately \$400 million.

## 27. Justice

The Department of Justice indicated that the key factors that are the "drivers" of expenditure were the changes in crime rate resulting in increased prison populations. The diversity of crimes and level of criminal activity has increased significantly over the previous years. For example, increases in the incidences of criminal activity, such as gang related crime, has resulted in a change or hardening of the inmate prison population and has resulted in the need for increased security to segregate gangs and to protect the staff. Increased prison populations and overcrowding is the significant reason for the overspending.

It is anticipated that the population level will continue to increase in the future and, as such the department will continue to increase expenditures for legal aid, corrections and policing. The Department of Justice has indicated that it is considering a formal study of the situation in Prosecutions at a cost of approximately \$220,000 pending funding approval.

## 28. Legal Aid

The only other issues that could impact on the future revenue sources are the Canadian Assistance Program which relates to funding from The Federal Government. This program expires on March 31, 2001.

## 29. Criminal Injuries Compensation Board

Certain issues may begin to arise in the future under some changes to a Victims Compensation Program which have been in place since 1971. This was intended to have the provinces have a responsibility for "Victims of Crime". The payments after 1971 were based on amounts under regulation and has depended on the severity of the crime with a reimbursement of actual out-of-pocket expenses. There is now a mechanism for Impairment/Lump Sum Settlement Awards. Prior to 1996, a pension was paid rather than lump sum payments. Old claims were "grandfathered" and the latest actuarial valuation was completed in May 1998. There will be an actuarial valuation done before March 2000 on these "grandfathered" pension plans.

There are caps on the total amount which can be paid to individual complainants, however, there is potential for large increases in payouts as more publicity is given to the Victims Rights Act. There is significant pressure to increase the profile of the Victims Rights Act and, as a result, there will be pressure on increased expenditures. At the time, violent crime is decreasing, thus mitigating future expenditure increases.

## 30. Labour

Department officials indicated that to the best of their knowledge, there were no "lurking expenditures", contingencies or other circumstances that might result in a material implication on the financial position of the Province. In addition, it was indicated that there is no expectation that any "one time" funding requests will be made to the government in future years.

The Department officials indicated that they expect that there will continue to be pressure on the scope of services offered in the workplace and health areas. These costs are largely reimbursed by the Workers' Compensation Board (WCB). The WCB Act provides a "cap" on the amount of the reimbursement. It may be advisable in the near future to "open up" the WCB Act to revisit the reimbursement formula or the amount of the "cap" to be sure that there is an appropriate reimbursement for the impact of expenditure growth pressures.



**APPENDIX I**

**PROFIT PROJECTIONS AND FUTURE ISSUES  
AFFECTING OPERATIONS OF GOVERNMENT  
ENTERPRISES**

## APPENDIX I

### MANITOBA LIQUOR CONTROL COMMISSION

#### LOOKING AHEAD TO 1999/2000, 2000/2001 AND 2001/2002

The estimated net profit of the Manitoba Liquor Control Commission for the current and next two years is as follows.

|                                           | 1999/2000<br>(estimate) | 2000/2001<br>(estimate) | 2001/2002<br>(estimate) |
|-------------------------------------------|-------------------------|-------------------------|-------------------------|
| <i>Estimated net profit (in millions)</i> | \$153.0                 | \$154.5                 | \$156.0                 |

Over the next few years, the entity anticipates modest growth. This expectation is based on the assumption that the effect of the specialty wine stores will be similar to that experienced in the current year.

#### FUTURE ISSUES AFFECTING OPERATIONS

The current labor contract with the union expires in March 31, 2000. It is uncertain at this time how the renegotiated contract will differ from the existing contract however management believes that the issues which will need to be addressed include wages and the use of part time staff versus full time staff. Salaries and benefits for the year ended March 31, 1999 amounted to \$19.1 million (1998 – \$17.9 million). The projections compiled by the entity do not take into account significant wage increases as a result of union negotiations. The growth in sales to private wine stores has reduced profits and this trend may continue.

### MANITOBA PUBLIC INSURANCE CORPORATION

#### LOOKING AHEAD TO 1999/2000, 2000/2001 AND 2001/2002

The forecasted net income of Manitoba Public Insurance for the current and next two years is as follows.

|                                            | 1999/2000 | 2000/2001 | 2001/2002 |
|--------------------------------------------|-----------|-----------|-----------|
| <i>Forecasted net income (in millions)</i> | \$61.2    | \$20.2    | \$3.6     |

The forecasted net income for 1999/2000 includes actual results for the first nine months of the year. Based on actual experience to November 30, 1999, no shortfalls are anticipated in the actuarial reserves at February 28, 2000.

These forecast amounts take into account a 5% reduction in basic compulsory insurance premiums as ordered by The Public Utilities Board.

## **FUTURE ISSUES AFFECTING OPERATIONS**

The five-year projections as prepared by the entity project a loss of \$10.5 million and \$25.0 million in the fiscal years ended 2002/03 and 2003/04 respectively. However, it should be noted that these projections represent maintaining the status quo in all areas and do not take into account changes in the business and the results of significant decisions which will need to be made in the upcoming years.

Issues that the entity must deal with include the fact that most of the entity's claim expenses relate to fixing vehicles and healthcare costs. In both cases, the cost of these items are increasing faster than the rate of inflation. Therefore, unless rates are allowed to increase proportionately, there will need to be significant operational changes.

There are areas where the entity may be able to re-engineer its operations and take advantage of certain efficiencies, however, they would require significant philosophical changes in how the Corporation operates. Certain future cost-saving opportunities include:

1. The concept of continuous policies whereby individuals could renew their policies on-line. (Currently \$29 million is spent each year on brokers commission.)
2. The potential of purchasing vehicle parts in large quantities which would allow the Corporation to take advantage of volume discounts. Currently, because individuals can choose where damaged vehicles will be repaired, the Corporation pays the full retail price for all parts.

There are also increasing competitive pressures in the "Special Risk Extension" products given the competitive nature of this area of the Market.

The Corporation has re-insured against catastrophic events such as hail and flood, therefore no single event should significantly impact the net income of the Corporation. However, there are items outside the control of management which could impact operations. These could include policy changes by government such as:

1. Changes to regulations which affect the benefits offered under different programs (i.e. Personal Injury Protection Plan).
2. A reduction in the capital available to the Corporation. Currently investment income from the capital subsidizes the underwriting loss on policies. If this investment income were not available, certain rate increases may be required.

The Corporation could also be affected by future decisions made by the Public Utilities Board.

## **WORKERS COMPENSATION BOARD**

### **LOOKING AHEAD TO 1999, 2000 AND 2001**

For the current and next two fiscal years, the projected net income of the Workers Compensation Board is as follows. This information is based on the entity's 5-year plan which was produced in October 1999 and approved by the Board of Directors on December 21, 1999. Based on the results of the first 11 months of operations of the 1999 fiscal year, it is expected that the operating surplus of the entity will be approximately \$4.5 million for the fiscal year ended December 31, 1999 depending final calculation of the benefit liabilities as determined by the actuaries.

|                                                   | <i>1999</i>  | <i>2000</i>  | <i>2001</i>  |
|---------------------------------------------------|--------------|--------------|--------------|
| <i>Forecasted operating surplus (in millions)</i> | <b>\$4.5</b> | <b>\$8.9</b> | <b>\$7.3</b> |

The operating surplus will be used to finance both the rate stabilization fund and the accident fund to bring the balances of these reserves up to the appropriate levels as determined by the Board of Directors.

### **FUTURE ISSUES AFFECTING OPERATIONS**

A significant item which directly impacts the Board's operating surplus is investment income. However, there are inherent difficulties in forecasting future levels of investment income given market uncertainties. When preparing its 5-year projections, management forecasted depressed markets which results in a reduced rate of return on investment and reduced capital appreciation.

Other items the Board is, or will, address include:

1. Considering certain policy changes.
2. Contemplating revamping the rate setting model.
3. Reviewing strategies on how to increase the coverage base.
4. Reviewing strategies on how to decrease duration of benefit period by one day.

## **MANITOBA HYDRO**

### **LOOKING AHEAD TO 1999/2000, 2000/2001 AND 2001/2002**

The projected net profit of Manitoba Hydro for the current and next two years is as follows.

|                                           | <i>1999/2000</i> | <i>2000/2001</i> | <i>2001/2002</i> |
|-------------------------------------------|------------------|------------------|------------------|
| <i>Projected net income (in millions)</i> | <b>\$141.7</b>   | <b>\$115.3</b>   | <b>\$89.4</b>    |

Water flows in terms of both volume and quality, have a very significant impact on the operations of the entity. Water flows have been very good in recent years however, reduced flows and droughts would affect the projected net income figures substantially.

## **FUTURE ISSUES AFFECTING OPERATIONS**

Currently certain municipalities are challenging the status quo stating that they should have the right to tax any personal property within their jurisdiction including that of Manitoba Hydro. If legislation were passed which would allow the taxation of Manitoba Hydro personal property, the additional cost to Manitoba Hydro would be approximately \$87 million (i.e. additional taxes less "grants-in-lieu of taxes" which are currently being paid). This would then result in a 12.4% rate increase to cover the increased costs.

Manitoba Hydro is party to an agreement dated December 16, 1977, with Canada, the Province of Manitoba and the Northern Flood Committee Inc, which represents 5 First Nation communities. Included in this agreement is the provision for compensation and remedial measures necessary to ameliorate the impact of the Churchill River Diversion and Lake Winnipeg Regulation projects. During the year ended March 31, 1999, \$19.6 million of expenditures were incurred in connection with this agreement (1998 - \$55.0 million). In addition to the expenditures already incurred, a mitigation liability of \$135.7 million (1998 - \$132.4 million) has been accrued which represents anticipated future mitigation payments. As settlements are reached the provision is reassessed. There are also other mitigation issues whose outcomes are not determinable at this time, however it is not anticipated that these issues will have a material impact on the entity's operating results.

Opportunities for the future include increasing sales to export markets. The legislation is in place for Manitoba Hydro to pursue external markets, therefore, new business, market and logistical issues can be reviewed and addressed.

## **MANITOBA LOTTERIES CORPORATION**

### **LOOKING AHEAD TO 2000/2001 AND 2001/2002**

The Corporation believes that it can maintain net surplus of \$225 M for both 2000/2001 and 2001/2002.

The 2000/2001 budget has not yet been approved by the Board of Directors. Management does not anticipate any significant pressures on revenue nor expenses subject to future wage settlements and the unforeseen impact of Aboriginal casinos. The collective bargaining agreement expires March 24, 2000.



## **FUTURE ISSUES AFFECTING OPERATIONS**

### ***Operations***

The Corporation is concerned with increasing competition and its ability to maintain current profit levels of approximately \$225.0 million. It believes that maximum profits are in the range of \$225.0 million to \$230.0 million.

We were informed that the Corporation has 34 outside competitors. A location within one day's drive is considered to be a competitor including Thunder Bay and Regina. The Corporation is uncertain of the impact of the proposed aboriginal Casinos.

We were advised that the property enhancements and proposed hotel site on Regent were intended for the purposes of remaining competitive and develop the properties as destination locations to include entertainment, restaurants and lounges.

The Corporation is anticipating a significant increase in bus tours.

### **Legal Issues and Contingent Liabilities**

The Corporation has indicated that it is not aware of any significant contingent liabilities which might impair its ability to generate the estimated profit. However, there are several cases in arbitration relating to the following circumstances:

- Contractor contends damages for a lost opportunity to compete for a contract. Damages not quantified.
- Claims for additional fees by contractor: \$400,000 to \$500,000.
- Claim by contractor for additional project costs resulting from delays: \$942,772; claims by other contractors relating to same project: aggregate \$960,000.
- Claim against Corporation for restoration of Crystal Casino site: significant but unquantifiable.
- Various others of lesser significance: unquantifiable.

Individually, none of the claims significantly impair the Corporation's ability to generate its estimated profit; collectively the claims could be significant depending on the results of the unquantifiable claims.

The Corporation is currently in arbitration with the contractor of the expansion project for the additional capital costs (\$2.0 M to \$3.0 M) arising from the delayed completion date. We were informed that the Corporation was attempting to recover the extra costs.

## **APPENDIX J**

### **CANADIAN INSTITUTE OF CHARTERED ACCOUNTANTS (CICA) INDICATORS OF GOVERNMENT FINANCIAL CONDITION**

## APPENDIX J

The three measures defined by the CICA are sustainability flexibility, and vulnerability, looked at in the context of the overall economic and financial environment.

| Measure                                              | Definition                                                                                                                                                                | Indicators                                                                                                                                                                                                                    |
|------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Sustainability</b><br>– <i>The first priority</i> | The degree to which a government can maintain existing programs and meet existing creditor requirements without increasing the debt burden on the economy.                | <ul style="list-style-type: none"><li>• Annual Surplus or Deficit</li><li>• Net Debt-to-GDP</li><li>• Net Debt per Capita</li></ul>                                                                                           |
| <b>Flexibility</b><br>– <i>The second priority</i>   | The degree to which a government can increase its financial resources to respond to rising commitments, by either expanding its revenues or increasing its debt burden.   | <ul style="list-style-type: none"><li>• Own Source Revenues-to-GDP</li><li>• Public Debt Charges-to-Revenues</li></ul>                                                                                                        |
| <b>Vulnerability</b><br>– <i>The third priority</i>  | The degree to which a government becomes dependent on, and therefore vulnerable to, sources of funding outside its control or influence, both domestic and international. | <ul style="list-style-type: none"><li>• Federal Transfer Payments to Provincial Revenues</li><li>• Government-to-Government Transfers-to-Own Source Revenues</li><li>• Foreign Currency Debt-to-Net Government Debt</li></ul> |

The CICA advises that in reporting on the financial condition of government, certain caveats apply:

- ***The focus is on government, not the economy.*** The financial condition of government is not synonymous with the financial condition of the economy.
- ***Reporting applies to financial condition, not government performance.*** Reporting on financial condition does not include “outcome” indicators which deal with information on the performance or impact of government spending on the economy, on society, or any other aspect that touches on policy choices.
- ***Reporting on financial condition is not an assessment of current fiscal policy.*** Fiscal policy involves spending and revenue plans and is beyond the framework for reporting on financial condition.
- ***Financial condition does not imply financial solvency.*** Governments simply do not move from a state of good financial health to a state of insolvency, and the size of the deficit and debt, or the fact that the debt continues to grow, are not necessarily a sign of worsening financial condition. Financial crises can be associated with other factors, such as inconsistencies between monetary policy, fiscal policy, and exchange rate policies.